

DEVELOPMENT ASSISTANCE AND INDUSTRIALIZATION:
WHY ARE THERE DIFFERING VIEWS?

by

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ABSTRACT

This dissertation focuses on the issue of why donors differ in how they define industrial issues and programs in developing countries. The shift towards industrial programs in the late 1970s represents a break from the traditional approach to industrial development and one more phase in a continuing cycle of donor policy formulation. A model is presented which outlines the factors which triggered the shift, the theoretical approaches which flowed out of this process, and the implications for programs within developing countries.

By systematically tracking the evolution of the Canadian International Development Agency (CIDA) industrial program in the Philippines, insights are provided into how programs are formulated within a donor agency, how they differ between donors and what influences play the greatest role in program evolution. It is not sufficient, as some donor reviews contend, to say that bilateral agencies are motivated merely by commercial and political interests and multilaterals by developmental concerns. Each donor is subjected to a wide range of pressures which fluctuate over time and take on increased or decreased significance within the organization.

Four levels of policy development are seen in this process: uncertainty triggering a decision to change; policy formulation to resolve this uncertainty; organizational adaptation; and program development within a specific country. Policy development is cyclical with changes being made at various junctures in response to a number of stimuli.

The implications of this process are important for developing countries. Donors many times present their analyses as objective assessments of the situation within developing countries--above politics and bureaucratic concerns. They focus on developing rational solutions which

they believe should be implemented within the developing country. This is clearly seen in many of the industrial programs and projects put forward by donors in the last ten years. The developing countries often contend, however, that the analyses are attempts to impose a donor perspective of appropriate development.

The conclusion here is that the process of policy formulation drives the development model which is followed and prescribed by donors. Donors do not have a new solution to industrial development problems. Each has chosen a model of industrial development which fits the needs and perspectives of the organization. They are presenting options based on their attempts to develop effective programming in an ever changing environment. By more clearly understanding how donors develop their theory of industrialization and how it gets translated at the country level, developing countries can increase their negotiating and bargaining position in adapting the programs to fit their needs.

Thesis Supervisor: Lance Taylor
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I. INTRODUCTION

The central question which prompted this dissertation was: why do donors differ in terms of how they define industrial issues and programming within a recipient country? Previous analyses of donors provided some insights into this issue.¹ Political and commercial agendas have often been cited as the reason why bilateral donors tackle certain issues.² The need to disburse funds has been a driving force behind changes such as the shift in the World Bank toward program loans in the late 1970s. The debt problem within recipient countries has limited opportunities for traditional aid projects such as infrastructure which require matching funds from the developing country.

Seeing policy formulation from within a donor organization, however, it became apparent to me that these answers were incomplete. While they provided parts of the puzzle, the picture remained blurry. My sense was that the development of specific programs resulted from a more complex interaction of variables within the organization. The industrial programs represented a new cycle of solutions being put forward by donors in response to unrelenting problems within developing

¹ See for example Tendler (1975), Strachan (1978), Cassen and Associates (1985) and Cohen et al. (1985).

² This is one of the primary rationales given for channelling larger amounts of assistance through multilaterals which are supposed to be apolitical. See for example, Development Committee (1986).

countries. The factors which triggered the donor entry into industrial programming and the development of divergent programs were to be found in the decision making process of each donor.

Specifically four levels of decision making appeared to be in operation: the decision by the organization to change its current course; the overall policy formulation by the donor which determined which issues would be addressed and how the donor would approach them; the organizational pressures which shaped how the policies became translated through the system; and the issues formulation process undertaken within a recipient country which was a translation of this overall framework into specific terms.

To understand these levels of decision making required identification of the influences which were important at various decision making levels and how they combined to shape programming within a particular country. By systematically tracking this process inside the Canadian International Development Agency (CIDA), the key variables in each of these areas became clearer.

The purpose of this dissertation is to provide insight into how these four levels of decision making determine programming within a recipient country. Specifically, I look at why industrial issues are defined differently within a country by donors, how these definitions are the result of the overall environment within which a donor operates, and what

implications this has for program design. By undertaking a more complete tracking of policies through the donor maze, the influence of variables such as pressure groups, theoretical biases, economic environment, donor relations and organizational characteristics are able to be investigated.

The Issues

Industrial programming provides an excellent vehicle for looking at differences in approach by donors. Unlike other programs such as basic human needs or housing, most donors had a very similar practical and theoretical approach to industrial projects during the 1950s to 1970s.³ This approach was grounded in a very specific definition of what was appropriate for aid programs. Industrial projects were primarily seen to be "private sector" matters. While donors and recipient governments could provide support in terms of infrastructure, direct involvement by these two groups in industrial programs was considered inappropriate by donors. Few projects were undertaken directly; those that were undertaken followed strict economic criteria.

The shocks to the global system in the late 1970s, changed this situation. The traditional projects were no longer in demand at the recipient government level since they required resources for counterpart funds and ongoing maintenance. Donor agencies were facing increasing pressures on the

³ See Wood (1986) for a detailed discussion of this issue.

political, economic and administrative front to change their programs and disburse funds. The theoretical approach to development was also shifting with an increasing emphasis on the private sector as the "engine of growth". These, and other factors, triggered changes in how donors approached the issue of industrial development with donors increasingly turning to industrial programming as part of their aid package.

In this transition, donors developed a wide range of industrial programs. The World Bank moved into structural adjustment lending with a clear focus on changing the policy environment within which firms were operating. Direct support to private enterprises became a program element within both multilaterals such as the World Bank and bilaterals such as CIDA and US Agency for International Development (US AID). Private sector to private sector programs began to replace traditional bilateral government to government support.

While donors developed a spectrum of new programs, they also developed a range of views on how industrial issues should be addressed within a country--breaking away from their traditional definitions of industrial development. Some agencies such as the World Bank and US AID turned toward a model of "getting the prices right" within a country; others such as CIDA saw price as being only one element in supporting industrial efforts. The development of programs within each

donor agency reflected the theoretical approach which the donor adopted.

Why these changes were manifested in different ways is the focus of this work. The model which is presented here is one which portrays a complex interaction of variables at different levels within the donor agency. While previous work has focused on the political or administrative motivations for policy changes, the emphasis here is on a more dynamic interaction which combines political and administrative with economic, organizational and development theory.

Policy development is cyclical with changes being made at various junctures in response to a wide range of stimuli. Four levels of policy development are seen in this process: uncertainty triggering a decision to change; policy formulation to resolve the uncertainty; organizational adaptation; and program development within a specific country. Within each of these levels a different set of factors play a role in shaping the policies and programs. These variables also fluctuate over time with certain factors taking on increased or decreased importance within the organization.

The contention of this dissertation is that a donor's definition of industrial issues to be addressed within a country starts long before the arrival of the first mission. Each donor--regardless of whether it is bilateral or multilateral--has its own policy framework which dictates how

sectoral issues are addressed.⁴ These differing frameworks result from pressures from a number of different directions: the demand for funding from recipient countries; the need to find a niche in the overall aid giving framework; the demands and pressures of internal constituencies⁵; the pressures from the developed country community as a whole; the requirements of donor coordination; and the state of the art in development theory.

Much of the work to date has had an implicit assumption that certain of these variables are dominant over time with various donor agencies. Bilateral donors are seen to care less about developmental objectives and more about domestic concerns of their internal constituencies. CIDA has continually been criticized for succumbing to commercial pressures as demonstrated in the degree of tied aid still exercised.⁶ US Agency for International Development continues to be portrayed as using development assistance as a vehicle for political and

⁴ Cohen et al. (1985) call this the policy space which is the "area within which it is possible -- economically, politically, ideologically, administratively, culturally--for a [donor] to make effective decisions."

⁵ For Bilateral donors these are the domestic groups which pressure for policy changes within the country; for multilaterals they are the member countries on the donors' boards which pressure for changes.

⁶ See for example the recent aid reviews such as Canada (1987).

foreign policy agenda.⁷ On the other hand, multilaterals such as the World Bank are seen to be primarily motivated by a development model and not impacted by political or economic pressures.⁸

While policy formulation in these agencies may be influenced by these factors, other variables also play a role which fluctuates over time. Certain factors take on increased or decreased importance within an organization depending on the circumstances. The pressure to dramatically change programming within a donor agency is often triggered by growing uncertainty in the development environment. Global economic shifts, a lack of demand for funding within the recipient countries, the ineffectiveness of the current donor programs, and pressure from constituencies converge to make the current programming unsustainable. The donor is forced to search for a new program niche within the aid framework.

This growing uncertainty forces a redefinition of the donor's programs. How this redefinition takes shape is strongly influenced by the parameters set by the various pressure groups impacting both the multilateral and bilateral agencies, the opportunities for programs within developing

⁷ See for example Sewell, Feinberg, and Kallab, eds (1985) which makes the clear case that the US is moving increasingly in this direction.

⁸ The objectivity of the Bank and its focus on development issues as a first priority underlies many of the recent aid reviews such as Cassen and Associates (1986).

countries, the push within the donor community for increased coordination and acceptable theories of development. The confluence of these pressures, which varies by donor, dictates the policy framework for the donor.

This framework, in essence, sets the parameters of how issues will be addressed. The organization adapts the framework and from this flows the theoretical approach which the donor will take to issues, the internal and administrative setup required to translate these policies into the field and the inherent impact which this translation has on the respective roles of donor and recipient. All of these relations, theories and administrative guidelines have been established before a donor goes into the field and set the bounds for policy and program formulation.

The movement of donors into industrial programming illustrates how some of these factors work through the system. For example, the global economic changes in the late 1970s changed the development possibilities within many developing countries. To deal with balance of payments problems, many countries were forced to reorient programs. While the demand for aid to assist this process increased, the type of aid needed changed. The donor's previous reliance on project funding, particularly in areas such as rural development, was becoming less viable as recipient countries were undergoing severe adjustments. These factors placed many donors into a

state of flux as they attempted to develop programs which responded to the changing climate.

In their search for new solutions, a number of donors, including CIDA, turned toward direct industrial programming. The shift at the developing country level toward a greater focus on the private sector as the engine of growth meant that the theoretical bias of the donors regarding the appropriate public/private split of responsibilities was no longer an issue. Donors could now target the private sector. As well, the demand from recipient countries grew suddenly at the end of the 1970s as private funds were no longer available for many enterprises to adjust. This meant that donor programs would face increased demand in these areas.

How the donors formulated their strategy relied on their assessment of the role they wanted to take in the development process, the pressures from internal constituencies, and the demands of the donor community as a whole. CIDA chose a route of providing support to micro, small and medium enterprises in areas such as credit, marketing and technical assistance. These smaller enterprises posed a limited threat of competition to Canadian firms. In fact, commercial interests played little role in the program decision.

The program emphasis instead resulted from CIDA's assessment of its comparative advantage vis a vis other donors, the demands of Canadian groups who were concerned about employment in developing countries, and the opportunities at the

recipient country level. Other donors undertook a similar process of program definition and developed a spectrum of industrial interventions from sectoral program lending to microenterprise support.

Once the policy framework was established, the organizational relations within the agency dictated the application this theory or approach would take within the field. In essence, the organization translated the external pressures for change into programming which fit its organizational environment. Two factors were particularly important in formalizing the theory of industrialization which would underlie the actual programs. The first related to the organization's traditional theoretical approach to development. In essence, the value set of the donor came into play in formalizing the theoretical model to be used in evaluating issues at the country level. The second factor related to organizational and administrative setup in terms of relation between technical and project staff, ability to disburse funds, and structure of administration.

The issues formulation process within the recipient countries then became a way of translating the principles of the donor into the field. Independent assessments were undertaken to ensure that this translation occurred. The result was differing assessments by donors of the problems facing a country.

By understanding how the policy framework of the donor gets formulated, how this is translated into sectoral concerns and how these set the parameters for the analysis which is undertaken within the developing country, the process of donor funding becomes more transparent. This transparency is rare. People outside of the system see donor programs established which, many times, appear to be the result of quick decisions or based on preconceived notions about how the recipient country should be developing. While the developing countries are supposed to be partners in the process, they have often felt like victims of it.

This was evident in much of the literature during the 1970s on reorganization of the international order during the NIEO debates. More recently, developing countries have been objecting to many of the policy conditions being imposed by both multilateral and bilateral organizations which appear to be a set agenda that all countries must follow. The movement by developing countries to strengthen their analytical and negotiating capabilities and thereby increase their strength within the aid process is essential for increasing their control.

Ironically, many times individuals within a donor organization find the process just as perplexing as those outside. While they may understand program objectives or administrative criteria, they often can not anticipate how

changes will work through the system and impact their programming process.

A better understanding of the process is critical, however, particularly from the recipient country point of view. To better impact the donor policy and program formulation process, it is important that recipients continue to improve their understanding of how procedures, policies and pressures actually get worked through the donor system.

This inside view of how industrial programming is formulated within a donor agency provides one example of how issues are addressed and programs designed. How are issues within a specific country assessed by the agency? Why are certain aspects of this assessment taken up and others dropped? In what ways does the process undermine the achievement of program objectives? How can recipient countries impact the process?

CIDA, in formulating its industrial programming in the Philippines, has attempted to be fairly open. Both the Government of the Philippines and private individuals have been involved in the process to date--discussing issues, commenting on CIDA's assessment of problem areas and suggesting where interventions might be most useful. In fact, CIDA's attempts at making the entire aid process more interactive have been praised within the country.

Despite these attempts, forces continually intervene to change the nature of the program and the interventions which

are possible as a result of these changes. Changes within the policy framework of CIDA have shifted the parameters for program formulation. These have filtered through the system resulting in both a difference in approach to industrial programs as well as a reformulation of relations within the organization. The result is a fluid decision making process which is difficult to understand even from within the organization.

CIDA's involvement in the Philippines provides an ideal case for investigating the development of industrial programming for a number of reasons. First, the Philippines is an example of a "near NIC" which achieved high growth in the 1970s. While it followed many of the industrial policies now considered "appropriate" for a country, it still was not able to capitalize on opportunities. The result is an industrial structure which has high potential but faces major obstacles. A number of donors, including Canada, feel they can have a positive impact on the industrial sector by helping to alleviate some of the obstacles to development.

Second, the Philippines is currently reliant on donor resources in the short run for its discretionary funding in the industrial area. The current balance of payments crisis has cut off, at least temporarily, opportunities for private financing, yet the country is still targeting growth in the industrial sector as a vehicle to transform the economy. This increased reliance on donors in the short run is typical of a

group of countries which have achieved substantial levels of industrialization but are currently blocked by limited access to private capital markets.⁹ The Government of the Philippines views external donors as a primary source for filling its current gap in financing. As a result, donor influence is potentially high.

Third, Canada only began its aid program in 1986 after the election of President Aquino. Since 1986, industrial programming has been undertaken to devise a suitable program to be implemented in 1989-90. My continuous involvement in this process from 1986 onward as a consultant to the CIDA Industrial Services Section (ISS) provided an opportunity for researching the entire process of industrial program formulation.¹⁰

Fourth, at the same time as the ISS was undertaking its programming, the policy framework within CIDA was being changed. The entire aid program within Canada came under review and a new agenda for CIDA was set by the Government.

⁹ See OECD (1988a) for an explanation of this phenomenon. In terms of financial resources, developing countries now break into three groups: those currently reliant on donor funds for their primary source of capital (i.e. Sub-Saharan Africa); those currently reliant in the short run on donor funds to allow them to undertake industrial programming (i.e. Philippines, to some extent Brazil and Mexico); and those who currently have access to private capital markets and receive little donor funding (i.e. Korea and Taiwan).

¹⁰ The specifics of this process and the research undertaken are discussed in the methodology section and detailed in a technical appendix referred to throughout as Appendix A.

This dramatically changed the policy framework within the organization and the administrative structure to support it. The timing of the ISS programming in the Philippines, allowed changes in the policy level to be more clearly traced through the system to see their impact on the industrial programs which could be implemented.

Throughout the research one question reoccurred: was the formulation of industrial programs unique or did it have applicability to donor operations in general? Aid programs appear to be broken into three types. The first, which covers areas such as famine relief and humanitarian assistance, is clearly different than industrial assistance. The motivations, the decision making process and program formulation are of a fundamentally different nature.

The second groups of programs are those which are put in place to serve a specific purpose or client group. These include programs such as: the military aid of the US; the industrial cooperation programs of Canada, Britain, Sweden, Germany and others; and the programs which complement the activities of non-governmental organizations, universities or other groups. All of these programs are clearly driven by strategic, commercial or other interest group interests. Their development is easy to trace and their purposes fairly straightforward.

The industrial programs described here fall into a separate category of aid programs which are supposed to be aimed at the

developmental needs of the recipient country.¹¹ For CIDA, these would be the bilateral programs aimed during the 1950s and 1960s at infrastructure and training and during the 1970s at social programs and basic human needs. These programs flowed out of a decision making process which had many of the same elements as the industrial example. However, the importance of variables, how they were manifested and how the program uncertainty was resolved was different in these cases.

Methodology¹²

One of the primary obstacles to researching how policies are formulated within a donor agency lies in the inability to trace variables through the system.¹³ Information must be obtained on a systematic basis from inside the organization to answer questions such as: Why does a donor change programming emphasis? What role do organizational factors play in program resolution? How are programs applied in a specific country?

Even after this information is gathered, the uniqueness of the specific case must be assessed. Does gathering information

¹¹ It should be noted that the rationales for the other two groups of programs are usually placed in a developmental context as well.

¹² This section is supplemented by a technical appendix (Appendix A) which outlines the field trips taken, the interviews conducted and the confidential reports reviewed.

¹³ Cohen et al. (1985) see this as the critical problem which has prevented analysis to date. To overcome this problem they even recommend that developing countries establish units within donor offices to track the policy making framework.

from inside one donor agency provide any means to generalize about donor behaviour and policy formulation? Or is the case so unique that more general conclusions are impossible to reach?

To adequately deal with both sets of issues required a detailed and multifaceted methodology. My participation in CIDA's programming for the Philippines from its inception allowed the accumulation and synthesis of detailed information on how policies were being formulated and translated through the system. My direct involvement in four missions aimed at formulating the issues assessment in the Philippines, the overall programming document for the Philippines, and the translation of the policy changes into the Philippines program, provided the sequence of activities, dynamics within the organization and the flow of decisions which was needed to understand the policy and program framework.

While this participation was critical in providing a unique portion of my research, it also had limitations. The first was the ability to analyze a process of which you are a part. How does one objectively review a process when one is involved in it? The second problem was how to assess whether the situation with CIDA in the Philippines had relevance to CIDA as a whole, other donors, or other countries? While the CIDA example showed the mechanics of the process, it did not provide the theoretical framework for assessing the process on a broader scale.

To overcome these obstacles, I undertook extensive research in a number of areas. Interviews were undertaken within the Philippines to understand the industrial issues and obtain a spectrum of views on how donors should assist in this area.¹⁴ Firms were interviewed to gain insights into the blockages facing further development.¹⁵ Policy analysts, research institutions and academics provided views on where the critical problems were in the economy, in relations within the country and in terms of policy formulation. Government officials discussed future plans, past problems and the role of donors within the country. Community groups provided vivid insights into the issues of poverty, social relations and equity concerns. The extreme biases within the Philippines industrial structure became evident from these interviews and a review of Philippine literature. They also allowed a clearer assessment of how donors have related to the Philippines in the past.

Research into industrial planning in other developing countries (specifically Costa Rica, Malaysia, Korea and the Ivory Coast) brought into clearer focus the diversity of experience between countries. This research and discussions with developing country representatives highlighted which

¹⁴ For a partial list of the organizations interviewed refer to Appendix A.

¹⁵ This included a questionnaire which I designed and which was administered by a team of Philippine researchers to 96 firms within the Philippines in seven subsectors.

portions of the Philippine experience were typical or atypical. They also helped in determining whether the approach to industrial development and to donors being taken by the Philippines was evident in any other countries. From this flowed a better understanding of the strengths and weaknesses of the Philippines economy.

Interviews were also undertaken with CIDA personnel on both a formal and informal basis. These interviews were intended to gain insights into the workings of the organization, the impact of the CIDA policy review, the problems the staff saw with industrial programming, and the relationships between the various sections. Discussions with other Bilateral desks provided information on whether the Philippines program development was unique. Other divisions within CIDA gave different perspectives on the opportunities and problems caused by the aid review and the change in policy framework.

These CIDA interviews provided a clearer framework within which to assess the Philippines example. While portions of the Philippine case were unique, it also represented one of the most dynamic examples of both industrial programming and the impact of changing policies within the organization. Different CIDA staff provided pieces of the puzzle enabling me to put together a broader picture of change.

Before my work on the CIDA Philippines program even began, I had started trying to understand how donors were relating to industrial issues being formulated at the country level.

Interviews in Washington and New York provided valuable information on the shifts in donor approach, their definition of the issues and the roles which various groups were taking.

All of the field work and interviews were supplemented by an extensive review of literature on industrial theory, organizational theory, experiences within developing countries, development assistance and donor agencies. This literature provided a vehicle for organizing my ideas, interpreting parts of the research, and gaining an understanding of the complexity of industrial programming.

Throughout this process, I was also assessing how the CIDA experience fit with other donor agencies--both bilateral and multilateral. Were the elements of policy formulation and implementation unique to CIDA? Did they explain why CIDA's industrial programming differed from US AID or the World Bank? Was the Philippines case unusual in terms of understanding the approach of donor agencies or the response of developing countries?

Answers to these questions were the motivating force behind much of the interviewing and analysis done of other donors during this research project. Two levels of analysis were undertaken. The general approach of a variety of donors was looked at by interviewing staff members and reviewing donor documents. Interviews were conducted with both bilateral and multilateral agencies (including US AID, German, Netherlands, World Bank and Inter-American Development Bank).

This work was done in parallel with the CIDA research and provided a basis for comparing the uniqueness or similarity of CIDA with other donors. Examples of other donors mentioned throughout the document are based on this work.

As well, the World Bank is used as a comparative case in more detail. The use of the World Bank's industrial policy evolution for comparative purposes grew out of research which I conducted over the last three years. Starting with a series of interviews with Bank staff in 1986, I began to piece together the "Bank's approach" to industrial issues. While the literature which was emanating from the Bank stressed the "get the prices right" approach to industrial theory, I wanted to see why this developed within the organization, how it was being translated into programming and the kind of staff support it received. The answers to these questions were in some cases surprising and are presented throughout this work.

The analysis undertaken of the World Bank's approach was particularly useful in assessing the differences in approach and pressures faced by a bilateral versus a multilateral agencies. Through my interviews and my work in the Philippines I was able to collect and review numerous internal documents and communications dealing with both the Philippines and industrial policy in general. These documents along with an extensive review of other Bank documents and reports on this subject provided me with insights into how the Bank operated. Acting as a benchmark, they also provided a way to evaluate

the information I was gathering on CIDA's approach and draw some general conclusions.

Organization of the Thesis

Chapter 2 provides the policy framework for understanding CIDA's approach to industrialization by focusing on the cycles of change which donors have gone through since the 1950s. The factors triggering the cycles and the theoretical approach to industrialization which results are reviewed. As well, specifics are provided on the elements within the CIDA policy formulation process which played the greatest role in policy development at various periods.

The movement by CIDA at the end of the 1970s into direct industrial projects was a break from its traditional approach. The move was triggered by changes outside and within Canada. It was partly a response to balance of payments crises within developing countries, the shift in developing country policy toward a more private sector driven industrial model, and the need for CIDA to find a role to play in the aid process.

The organization was in a state of flux, reacting to these changes without a structured approach. The growing uncertainty forced a shift in policy. The policy framework which resulted was based on ad hoc programming in response to needs identified in the field. The decision to move into industrial programs was made at the policy level but the implementation of the programming was handed to a small

technical group within CIDA--the Industrial Services Section. This group designed a theoretical approach for industrial programs based on a more structuralist approach to development.

Chapter 3 provides some background information about the Philippines which is needed to understand CIDA's assessment of issues. By using a typology of development experiences, the approach of the Philippines to industrial development is assessed. From this analysis it is clear that the Philippines has taken a relatively conservative approach to industrial policies which conforms with many of the biases of donors towards the appropriate development model. Some key policies followed during the 1960s and 1970s have put in place a highly distorted industrial structure, however. Why the Philippines was not able to reach its potential relates to many of these distortions and is discussed in detail.

Chapter 4 then deals with the issues identification process of CIDA. The internal organizational setup of CIDA played a critical role in how the industrial programs were adapted. The fact that the ISS was in control of programming meant that its approach could be directly translated into the field. The group set up a methodology for defining issues in the Philippines which relied heavily on its theoretical foundations and a rational decision making process.

Two key assumptions were made after undertaking an independent assessment within the Philippines. The first was

that biases within the industrial structure were so entrenched that policy changes would not eliminate them. The second was that improved equity was a prerequisite of sustained development, not vice versa. These two assumptions differed from the conclusions of the largest donors in the Philippines such as the World Bank and clearly illustrate the differing theoretical approaches being pursued by donors.

In Chapter 5, the effects of a shift in policy formulation by CIDA are traced through the organization to identify the impact which they had on how industrial programs could be formulated. Program design was influenced by a series of events which fundamentally changed the programming possibilities. Parts of the analysis had to be dropped while others were taken up.

The changes which occurred were at the overall policy framework level. CIDA's desire to stop its ad hoc approach to programming triggered an aid review which changed the focus of the program. As these changes were translated through the system, the underlying assumptions of the ISS assessment were brought into question and replaced by more mainstream program objectives. While the theoretical approach to industrial aid did not change, the program priorities did.

While the CIDA example provides a specific case of how industrial programming has been undertaken, it also provides insights into the policy formulation process of other donors. A model is presented in Chapter 6 which pulls together the

stages of policy development and the influences which are relevant for each stage. The assumption of the model is that donors make fundamental changes in programming when face by extreme uncertainty. The resolution of this uncertainty is seen in the policy formulation process.

Each donor faces some common variables which influence the process of policy and program formulation. How a donor develops its approach to industrial projects depends on a confluence of forces which determine what variables are the most important at any point in time. The four levels of the decision making model are presented here with examples from the experience of other donors.

Donors develop their own theory of industrialization which dictates the approach and analysis which will be undertaken within a country. The differences between approaches which result can be traced back through the organizations to the overall policy framework within which the donor operates. The implications of these findings for both recipient countries and donors are included in the concluding chapter.

II. DEVELOPING A DONOR'S THEORY OF INDUSTRIALIZATION

Only in the last decade has the Canadian International Development Agency (CIDA) begun to directly support industrial projects. Before this time it funded industrial development indirectly through infrastructure, rural electrification, training and other support projects. Now programs have shifted to include credit to industrial enterprises, promotion of joint ventures and technology transfers and provision of marketing and entrepreneurial support to small and medium scale enterprises.

This shift reflects a change in CIDA's approach to industrialization. Wood (1986) contends that donors have limited industrial projects during the 1970s due to a theoretical bias. This bias manifests itself for two reasons. First, by withholding finance from industrial undertakings, the donors increased reliance on private capital which they felt was more appropriate for industrial projects. Second, donors wanted to promote a certain type of industrialization which relied on private ownership, openness to foreign capital, reliance on market forces and export orientation. By forcing developing countries to turn to private capital (both internal and external), these objectives were accomplished.

Certainly the policies of CIDA during the 1960s and 1970s did reflect this approach to industrialization. The reluctance to fund publicly owned enterprises prevented direct participation during the 1950s and 1960s. The emphasis was

clearly placed on ensuring that the private sector remained open to foreign "assistance". As well, the fear of supporting competitors to Canadian producers limited the possibility of support to the developing country's private sector.

What is not answered by Wood's argument is why CIDA or other donors would change their approach in the late 1970s to more directly support industrial projects. While still believing in private capital and the importance of the private sector, CIDA, along with other donors such as the World Bank, adapted its strategy and increased its direct participation in industrial programming.

Was this change a rational extension of a development theory which was deemed "correct" for development agencies to promote? Did the change merely reflect the pressure from the membership of the organization? Or was the move a reaction to an uncertain climate which forced changes in existing operations? The contention in this chapter is that uncertainty triggered the changes and a complex set of variables dictated how these changes were manifested within CIDA.

The Decision Making Framework

Analyzing how donor organizations make policy decisions is a difficult task and one which is not greatly understood. The international organization literature, which is supposed to provide insights into donor organizations (particularly

multilaterals), has remained fairly one-dimensional in its approach. These theories tend to view the decision making process merely as a function of the political membership of the organization.

Cox and Jacobson (1973) contend that decisions are influenced by: the membership of the organization; the actual process for making decisions (i.e. who votes and how); the types of decisions being made (i.e. specific programs versus general policies); and different actors involved. To understand the changes in policy requires simply an understanding of the interests of the relevant members and changes in power between members. Mapping these shifts will provide insights into future policy changes within the organization.

This type of reasoning supports the analyses which declare that multilateral organizations are more "objective" than bilateral organizations. If political influence is considered the prime determinant of behaviour then organizations such as bilateral donor agencies, which have a more clearly delineated "membership", are more subject to shifts in policy based on political objectives.¹ As an extension, multilaterals are more subject to differing influences from a variety of member countries which temper the donors' policies and allow more developmental criteria as the basis for making decisions.

¹ This is the contention of recent aid reviews such as Cassen and Associates (1986).

This emphasis of the international organization literature on one dimension--the political influence of member states--has been increasingly criticized as inadequate.² Ness and Brechin (1988) point out that international organizations are not mechanical implementors of the policies of their creators. Nor are all organizations alike. Instead different organizations must be viewed as complex undertakings which must be analyzed in relation to the environment within which they operate.

In fact, conflicting interests and political pressures are inadequate to explain the changes which have taken place over the last decade within CIDA. While these factors have contributed to the process of policy formulation, these pressures have not been sufficient in themselves to reorient policies. They can only partially account for behavioural changes. Other factors besides politics have intervened.

Accepting the idea that a donor agency can be buffeted by a wide range of forces besides immediate political pressures allows other types of organizational models to provide insight into donor decision making. The most relevant of these models deals with the issue of uncertainty. March and Simon (1958) put forward a model of organizations which focused on the profound effect which uncertainty had on the decision making

² This criticism has become more acute in recent years. See for example, an article by Rochester (1986) entitled "The rise and fall of international organization as a field of study".

process. As organizations became more complex, coping with uncertainty in the organizational environment became an essential part of the administrative and decision making processes and, in fact, acted as a motivating force.

Ascher (1983) extended this approach by adapting the model of uncertainty to the workings of the World Bank. Ascher defined the concept of uncertainty as a continual grappling to find solutions to development problems. The apparent intractability of these problems despite a wide range of approaches adopted over the years had been instrumental in pressuring for change within the Bank. It is this continual attempt at problem solving which clearly moved donor organizations from being the repository of answers to being one more actor in the development field looking for solutions.

It is this inability to find the right solution to the growing development issues which also acted as a catalyst for change within CIDA. CIDA chose numerous programming routes over the past thirty years in an attempt to find partial answers to development questions. The decision to change these approaches, however, was traditionally triggered by a confluence of forces which came together to create an atmosphere of uncertainty around the existing aid program.

These forces include not only the political or commercial interests within the country, but also the global economic situation, the shifting demand for aid at the developing country level, organizational failures with implementation of

existing programs, and pressures from the external developed country community. When uncertainty becomes so great that minor changes will no longer suffice to keep the organization viable, the ability to undertake any programming is threatened. It is at this stage that CIDA has moved to reorient its policies and redefine programming.

The issue of uncertainty as a motivator of change is important in understanding why CIDA, and some other donors, reconsidered their approach to industrialization. Faced with acute uncertainty in the 1970s and 1980s, CIDA had to act. By the 1980s, conditions had shifted at both the recipient country level and within Canada. The debt crisis was changing the possibilities at the developing country level, decreasing the demand for traditional infrastructure projects--in effect eliminating the markets for CIDA programs. In response to the rapid changes throughout the world, CIDA's approach became increasingly aid and eventually ineffectual. Reservations about the existing approach were being expressed at all levels within the organization and a decision to change was made.

How the policy was formulated to combat this uncertainty was a slow process of weighing the options for successfully resolving conflict. March (1988) describes solution (or opportunity) driven change as a method used by organizations to resolve uncertainty. While faced by a large number of problems of about equal importance, organizations are rarely faced with more than a limited number of solutions. The chance

of finding a particular solution to a particular problem is small, but the chance that a solution will match some problem is high. The focus then becomes on reviewing the solutions not the problems in an effort to come to terms with complex decisions.

This approach reflects much of the debate about changing donor priorities in the late 1970s and early 1980s. To solve the enormity of development problems was impossible, to focus on developing a particular solution or niche in the overall strategy was more practical. CIDA, along with some other donors such as the World Bank, concentrated on finding a niche which would provide a focus for programming.

Official policy formulation for CIDA became a process of weighing various solutions proposed by internal groups, the government and the overall donor community in the context of both development theories and developing country opportunities. From this analysis came a redefinition of the development niche filled by CIDA and a reorientation of policies towards industrialization.

In terms of industrial programming the shift took the form of two changes in "theory". First, while recognizing that private capital should continue to play the key role in industrialization, CIDA was now saying that public funds were appropriate and necessary for progress to be made in industrialization. Second, while supporting the importance of the private sector and market forces, CIDA was also

acknowledging that obstacles existed within developing countries which prevented the most efficient functioning of both the private sector and markets. This allowed a role for additional capital from donors to support private sector adjustment.

The purpose of this chapter then is to trace the changes in orientation toward industrialization within CIDA since the 1950s, what triggered those changes and how they fit with the overall philosophy of CIDA as a donor agency. The objective is not to do an exhaustive review of industrial theory but to highlight the theories which grew in prominence within CIDA at various stages, laying the foundation for CIDA's theory of industrialization.

In each phase, the events and pressures which created uncertainty within the aid program and triggered a policy shift are reviewed. The interplay between demands of developing countries, interactions with domestic and international pressure groups, organizational relationships and the current development theories are analyzed vis a vis possible solutions. Finally, the implications of the choices made on the organization's theoretical approach to industrialization are identified.

The first portion of the chapter treats CIDA as a monolithic organization with one view of the development process. Obviously, conflicts always exist within an organization. However, these differing views are not important for my

purposes until the 1980s when industrial programming began to take hold within the agency.

The process of policy formulation in response to uncertainty must be distinguished from policy implementation. Numerous works have pinpointed the problem of matching the official policies of an organization with the implementation of those policies. Tendler (1975) was one of the first to discuss this issue in terms of donor organizations. The argument was that the organizational environment played a more central role in determining the content of aid programs than was played by policy directives or project analysis. This organizational adaptation of the official policy framework by CIDA is discussed in Chapter 4. The focus of this chapter is on the official policy framework itself.

1940s to Mid 1960s

CIDA as an organization was not started until 1968. Between 1950 and 1968 Canada gave aid through the Ministry of External Affairs. While the early programs were haphazard in both goals and administration, they did represent initial attempts at providing support to the industrialization process.

The first entry in aid giving was as a member of the Colombo Plan in 1950. British Commonwealth countries joined together to provide aid to India, Pakistan, Sri Lanka and Malaysia. The intention was not only to assist the countries in meeting a shortfall in foreign exchange (developmental reasons) but

also to help put off a communist threat in the Asian region (political concerns).

Political pressure from the US in the wake of the Cold War was instrumental in getting the Commonwealth countries such as Canada to begin aid programs (Arndt 1987). At the end of the 1940s the US was a powerful political force in the world. The pressure from President Truman to help with the efforts to fight communism was a compelling argument -- particularly for a country so closely involved with the US.

Canada entered the aid sphere to support this geopolitical position. The initial policy statements by Prime Minister Pearson clearly stated that funds were being provided to Asia to prevent the region "from being conquered by communism ... [which would] prevent social progress" (Pearson 1950). Despite the fact that Asia was a region with which Canada had little contact previously, Pearson's government felt it was important as a member of the Commonwealth to support this political effort.

By participating in the Colombo scheme, Canada basically adopted the developmental approach of the other donors as the initial foundation for its aid program and continued to follow the general donor approach until the late 1960s when CIDA was created. Underlying this development concern (particularly expressed by the U.S.) was the notion that aid would assist in the capital formation process within developing countries. If, as the Harrod-Domar model indicated, the rate of capital

formation was the only determinant of economic growth, then assistance to developing countries to fill any savings gap was seen as contributing to development. By increasing physical capital through infusions of aid, they could increase production within the developing economy and indirectly alleviate poverty. With the right mix of savings, investment and aid, growth would follow automatically.

The work of Rostow was apparent in much of the reasoning of the aid projects in the early 1960s.³ Rostow (1960) attempted to place industrial development within an historical context by developing a scenario of five stages of growth. The stages represented a linear path along which countries moved in the development process. The third stage or "take-off" was in essence the rapid industrialization of the country or the "big push". During this period the rate of investment increased dramatically, key sectors became the lead in the process, production techniques changed rapidly, and the drive for modernization was not only accepted but promoted by the populous. During this phase, Rostow saw the influx of capital as a way to increase the level of investment within the economy. This could be accomplished by large flows of aid.

In the mid 1960s the two gap model of Chenery and Strout (1966) became influential within some donors such as the US and Canada. The model saw two types of gaps which could limit

³ In fact, references to Rostow's theory of takeoff continued to appear in CIDA documents well into the 1970s.

a country's progress: savings gap, when the total of domestic and foreign savings was less than the investment the country wanted to finance; and trade gap, when export earnings and foreign investment were less than the imports the country felt it needed to expand. The model saw one of these gaps as binding, with foreign aid as a method to alleviate the shortfall.

The acceptance of the aid program and this development model within Canada was facilitated by the support garnered within the country from commercial groups. As early as 1951, the Canadian Manufacturer's Association saw aid as a way to gain knowledge of new markets and increase access to followup trade opportunities (Baldwin 1951). Canadian technicians could recommend Canadian equipment; and Canadian goods and services could be provided. To further galvanize the support for the program within the country, the Pearson Government's aid program after 1951 was basically 95% Canadian in content. It was not until 1961, however, that this "sound self-interest" aspect of aid was used as part of the internal rationale for aid increases (Spicer 1966).

Having accepted the existing donor community's theoretical approach to development and winning support within the country for aid, Canada was faced with a decision about what form its aid should take. The focus of many donor programs at the time was on two types of aid: infrastructure; and technical assistance. These two aspects fit well with the internal

pressures within Canada and became the foundation of the aid program until the late 1960s.

On a theoretical level, the provision of infrastructure at that time was seen as a vehicle for helping with the "big push" needed within developing countries. The notion that industrialization could not proceed piece by piece but needed a planned and complementary approach to decrease the risk of not selling the goods was an approach initially put forward by Rosenstein-Rodan (1943). These ideas were further developed by authors such as Nurske who stressed the importance of capital formation in this process. Nurske (1953) built on Rosenstein-Rodan's theory and advocated a balanced, simultaneous pattern of investment in a number of industries. A balanced approach would allow people to work more productively (therefore earn more), have access to more capital and improved techniques, becoming each other's customers. Given this reasoning, Canadian aid could assist the state in building infrastructure which supported the simultaneous efforts of investment within the developing country.

The provision of technical assistance as the second prong of donor programs in the 1950s also fit with the development thinking at that time--at least within developed countries. Even as the capital formation theories were being developed, a recognition was growing that physical capital was not enough. Human capital had to be built up as well. The UN Group of Experts (1951) stressed the need for technical assistance.

Development assistance to help overcome the shortage of technical skills was seen as an important part of facilitating the absorption of technology.

Donors, including Canada, originally took this to mean sending foreign technical advisors who could help get quick results and changes (Rondinelli 1985). This "tool oriented" approach assumed that administrative capacity could be improved simply by transferring techniques from developed countries. In Canada, the technical assistance was coordinated through the Department of Trade and Commerce. Its approach basically equated technical assistance with Canadian experts on short term contracts.

This definition of technical assistance eventually gave way to a broader emphasis on education. Schultz (1959) was one of the first to identify the importance of education in economic growth. In the same way that investments could be made in physical capital, Schultz saw education as a way of investing in human capital. In effect, education was a form of capital formation.

Singer (1961) made a clear case for the need to shift the focus from foreign advisors. His contention was that while foreign experts could help with short run problems--filling temporary gaps--the need existed to invest in human capital to promote long run gains. Only the latter would allow the production of new indigenous skills through the education system. The criticism directed at the donor community

triggered a recognition of the short comings of experts as the primary vehicle for technical assistance. Canada shifted its program to include both education and technical assistance. By 1965, education expenditures had increased from \$1m in 1960 to \$17.3m.

It is important to note at this point that by accepting the donor thinking of the 1950s and 1960s as the basis for aid programs, the Canadian programming ignored some critical questions which were becoming more important at the recipient country level. Among these were the questions of trade, import substitution and public ownership.

The mainstream development theories during this period did not address the question of trade **per se**. Instead, underlying most of these theories was an assumption that trade had a positive effect on the development process. Foreign trade was considered an effective engine of growth and therefore, the more open the economy, the better the development prospects. This idea built on the Heckscher-Ohlin model of the 1930s and the factor price equalization theories.

Another stream of thought developed during the late 1940s which brought these assumptions under increasing criticism. The principal work in this area came from Raul Prebisch, Hans Singer and the Economic Commission for Latin America (ECLA). Prebisch (1949) viewed problems of underdevelopment as critically connected to the trade system. Within the existing division of labour, developed countries specialized in

manufactured goods and developing countries focused on primary goods--in keeping with the comparative advantage theories of trade. This division ensured, according to Prebisch, that the profits from productivity increases went to developed countries. This was accomplished by the declining terms of trade faced by primary products. Thus any gains which could be realized from trade went to the developed countries.

To keep the gains from technical progress, the developing countries had to speed up their process of industrialization, in essence, changing their comparative advantage within the international system. This speeding up was accomplished through substituting domestically produced goods for imported manufactured goods--import substitution. The income which was generated from the export of primary products could be used to import the capital goods needed for this industrialization boom. Foreign ownership would be controlled and an attempt would be made to form integrated markets for products.

By the early 1950s, ECLA had focused its attention on developing a practical application of this theory. While this process took a number of years, import substitution became the first step in almost every country's industrial strategy (Hirschman 1968).

Canada, along with most developed countries, stayed out of the import substitution debate. Throughout the 1950s and 1960s, the continued emphasis on providing infrastructure aid was based partly on the momentum of the programs and the

initial capital constraints analysis. However, infrastructure also provided a way of avoiding the debates about direct support to what was called the "productive sectors".

The developed countries including Canada did not accept the centre/periphery arguments underlying the Prebisch/Singer approach. They saw the new protectionism within developing countries as unwarranted and against their attempts to establish a freer trade system through the General Agreement on Tariffs and Trade (Arndt 1987). While import substitution was seen by the developing countries as a way to change their comparative advantage, Canada and other developed countries chose not to provide direct support to these infant industries.

A CIDA policy review noted two problems with direct industrial support: competition; and public ownership (CIDA, Policy Branch 1969). The potential competition which the import substitution industries caused for Canadian producers made it difficult for CIDA to justify direct support to developing country firms. If CIDA provided funds for these undertakings, the domestic producers would strongly object. The provision of infrastructure could not be perceived as competing with Canadians and therefore was domestically acceptable.

The question of public ownership was more complex. The CIDA document stated that the "prevailing attitudes in (developing countries) strongly favoured public ownership over private,

particularly in the new and dynamic sectors of the economy". This emphasis made it difficult for Canada to assist in the process despite the fact that Canada had a mixed economy itself. The replacement of public ownership for private in the developing countries was not accepted and neither was the need for import substituting industries as outlined by Prebisch.

The state's role was not to overwhelm the private sector but allow development of industries in which the private sector would not or could not participate. As with Nurske, the issue of public versus private control was one of expediency not ideology. This split between public and private responsibility appeared to underlie much of the reluctance of Canada and other donors to directly support productive activities throughout the 1960s. Regardless of the patterns of mixed ownership in developed countries, the donors saw public ownership as largely inappropriate in the developing country context. The resulting theory of industrialization relied on private ownership and private capital to directly assist enterprises. Donors would focus on support services such as infrastructure.

The Mid 1960s to 1978

a) Changing the Structure of Aid

Throughout the 1960s, Canada continued to increase its aid levels--perpetuating the approach and programs started in

1950. While aid increased from Cdn \$400,000 in 1950 to Cdn \$211,700,000 in 1966, 75% of these funds were still going towards the Colombo Plan. An additional 20% of the aid monies were going toward other Commonwealth countries in the Caribbean and Africa. The movement into these other Commonwealth countries was also highly geopolitical. In the case of Africa, a Colombo type aid programs was set up by Britain, New Zealand, Australia and Canada to support newly independent African countries.

The increase in volume of aid began to make the mechanics of aid delivery more cumbersome. An ad hoc collection of government ministries were administering the various components of the programs (basically infrastructure and technical assistance) with increasing problems in terms of coordination by the external Affairs Department. The Government decided to formalize the aid program to reflect this growing need for increased coordination.⁴

CIDA was started in 1968 in a rather inauspicious manner by an order in council not an Act of Parliament.⁵ A former President of CIDA indicated that the decision not to have legislation governing CIDA was done on purpose. "If there was legislation it would have been focused on the lowest common

⁴ This trend towards formalizing aid organizations was also seen in a number of other donor countries during this period.

⁵ An order in council is a decree by Cabinet which in this case simply states that CIDA will come into existence.

denominator" (Standing Committee on External Affairs and Trade 1986).

This "denominator" would have had to take into account views of a wide range of ministries, internal pressure groups, the international donor community and foreign policy objectives--making explicit the objectives of aid. Instead, the intention was to remain vague about the mandate of the aid program. By simply presenting a one statement sentence which said that CIDA would exist under the Department of External Affairs, any resolution of these pressures was avoided in the shortrun.

The first policy statements which emerged from CIDA were also careful not to appear to change the rationales and programs already in existence. A CIDA Policy Branch document (1969) reaffirmed that the basis for aid within Canada was to promote economic growth and to support development in countries which were "allies". At the same time, however, in its submission to the Development Assistance Committee (DAC) in 1969, Canada did begin to more concretely look at its approach to aid giving for the first time.

The submission laid out three options for its relations with recipient countries (CIDA 1969). The first was for CIDA to take a completely passive role which would involve simply transferring funds to developing countries with no concern over how it was used or who received it. The second was a semipassive approach where Canada would allocate aid, establish broad guidelines, and then sit back and wait for

recipients to present projects. The third approach was active and consisted of not only allocating aid but becoming directly involved in policy and project formulation. This latter option was equated with the approach taken by the World Bank and US and was viewed as too inflexible in terms of donor/country relations.

Canada's recommended path was a combination of all three options. It felt that it could devise a policy strategy which would maintain "control over the use of Canadian funds,... exercise leverage effects in the development process while minimizing friction with recipients, and (provide) a program of specialized high quality aid" (CIDA 1969).

This philosophy was the first clear indication that Canada's aid program would no longer simply reflect the views and programs of the donor community. Prime Minister Trudeau saw a more activist role for Canada in the North/South debate. While cooperating with other developed countries, Canada wanted to bridge the gap between developing and developed countries. By being more open and flexible, it hoped to reinforce the linkages between developed and developing countries through its new foreign policy arm--CIDA.

Few changes were made to aid programming immediately, however. The equilibrium and momentum of the programs were maintained initially as CIDA began to examine how it could reformulate programs. Studies were undertaken in areas such as policy objectives, ways of increasing Canadian private sector

and new project options. A foreign policy review was called in 1968 which was to review foreign policy in general and specifically the role of aid.⁶

It was not until the early 1970s that CIDA and the aid program in general became subjected to an increasing assortment of pressures. An atmosphere of uncertainty set in which brought into question the theoretical approach to aid, aid programs and the basis of the new aid organization and forced a reexamination of the policy approach.

b) Growing Uncertainty

Uncertainty emanated from a number of different sources during the late 1960s and early 1970s--experience and demands of developing countries, global economic situation, pressures from the developed country community and internal pressures within Canada.

While industrialization produced high growth rates in developing countries in the 1950s and 1960s, the policies were coming under increasing attack for two reasons. A realization was slowly evolving that industrialization was not self-sustaining as many of the earlier theories adopted by the donors had suggested. The infusions of capital had not

⁶ This review culminated in the document **Foreign Policy for Canadians** published in 1970 which provided a very general outline of six objectives: foster economic growth; safeguard sovereignty and independence; work for peace and security; promote social justice; enhance quality of life; and ensure a harmonious natural environment. These objectives remained too general for designing programs or setting priorities, however.

automatically overcome bottlenecks within the economy. The industrial process had become more complex and the theories needed to reflect this complexity to see why growth could not continue on its own. Rostow was too simplistic an analysis and the developed countries were left groping for new solutions.

The concentration on import substitution was also causing problems within some developing countries. A shift in import dependence from consumer goods to capital goods had taken place with little reduction in overall import levels. The neglect of the export sector had caused balance of payments problems. An overcapacity in industries with limited markets was causing inefficiencies within the economy. The benefits from import substitution were not being sustained after the initial surge.

The second group of concerns focused on equity. The trickle down assumption inherent in previous theories was working slowly at best. The lack of employment generation, concentration of benefits to a limited segment of the population and general neglect of agriculture were being called into question. The focus began to shift toward more explicit programming aimed at improving social conditions.

At the same time, donors themselves were entering a crisis period. The interest in foreign aid on the part of many developing country governments was waning as countries wanted to follow a more independent path to development. The demand

for large infrastructure projects was being replaced by increasing attention to issues such as self-reliance, income distribution and rural development. The market for infrastructure was drying up and donor funds, including Canadian, were going unspent.

This lack of demand for donor funds became particularly evident after 1973. While the oil crisis put both developed and developing countries into a severe adjustment period, it also provided large quantities of recycled funds available on the eurocurrency market. Developing countries with access to credit were able to follow autonomous industrial strategies by receiving funding from private sources. Those countries who were least able to adjust to the shocks (i.e. many African countries) were facing limited growth potential and poor credit ratings. For this group, funds were increasingly hard to find--especially for industrial projects. As UNIDO (1979b) states, this meant that aid began to focus more on the least developed countries who were facing fewer options. It also meant that soft loans were not going to industrial projects but were focusing more on rural development and basic needs.

At the same time as the market for donor funds was decreasing, the number of aid agencies was increasing dramatically as more donor countries, including Canada, were deciding to formalize their assistance programs. More of these donors were also tying their aid, making competition at the developing country level more acute. Canada became

increasingly unable to disburse its funds to the traditional programs which threatened its tenure within the established Canadian bureaucracy.

During this period, the Canadian aid program also came under increasing attack at home. CIDA was seen by the Canadian public as transferring funds to richer developing countries for large infrastructure projects which had little benefit for the poor. The well organized non-governmental organizations (NGOs), in particular, pressured the government to begin to reorient its programs toward more grass roots, socially oriented projects.

c) Policy Resolution

The changes at the recipient country level in terms of demand for infrastructure, the crisis within the donor community in terms of increased competition, the growing problems within Canada in terms of the purposes of aid and the inability of CIDA to disburse funds forced a policy review. The increasing instability of the aid environment brought Canadian aid into question. The issue was how to meld the international and domestic concerns with practical ones.

The solutions presented by various groups provided a variety of options. The Government was becoming increasingly committed to the North/South dialogue by the early 1970s. Part of the reason was Trudeau's commitment to the issues. Another part was the continuing tradition of Canada to provide

an important contribution to multilateral debates (North South Institute 1980). As a major secondary power, Canada continued to see this as a vehicle to strengthen its position on the international scene while also promoting both Canadian and developing country interests.

The geopolitical pressures then saw the aid program as supporting the North/South reform agenda and countries such as Tanzania which were attempting to follow alternative development programs (Young 1983). While supporting the movement of other donors towards equity issues, Canada did not see these efforts going far enough. The demand from developing countries was primarily from the poorer ones (such as Tanzania) who welcomed Canada's interest and funds.

The internal pressures within the country were putting forward two very different sets of development solutions. The NGOs and other social action groups were pushing for grass roots projects within the poorest countries to directly address poverty issues. The commercial groups, backed by the Industry, Trade and Commerce Ministry (ITC), were pressuring for more direct funds for Canadian exports. As one official of the ITC remarked, "I see nothing wrong with do-gooders and bleeding hearts...except when the Japanese are there with their soft money, the Brits are there...and old Canada isn't, you get pretty upset" (Carty and Smith 1981).

The official resolution of the varied solutions was presented by the Government in 1975 in the **Strategy for**

International Development Cooperation. Three concerns were to be the primary focus of the Canadian aid program: satisfaction of basic needs; encouragement of self-reliant behaviour; and building mutual relations and benefits. In line with the changes at the recipient country level and the internal pressures, the programs were to be increasingly aimed at poorer countries.

Almost before the Strategy was announced, however, problems arose with its ability to be implemented. The basic needs approach advocated direct provision of water, housing, food and other services to the poor.⁷ Priority for both production and distribution would be placed on meeting human needs not on changing the system to redistribute income. Production of non-basic needs goods was no longer a priority--this was particularly true for industrialization. In fact, in this approach, industrialization had little or no role.

The acceptance by Canada of the basic needs (BHN) approach meant that it was taking a more progressive policy approach than some donors such as the World Bank. The Bank was advocating a redistribution with growth (RWG) approach based particularly on work by Chenery (1974). Chenery addressed the issue of increasing inequality with industrialization noting that obstacles in the system constricted the ability of the trickle down effect. What was needed to generate growth with

⁷ For a review of the basic needs literature from this period see Streeten (1981).

distribution was a redistribution of investment by government to specifically target the poorer segments of the population. The focus would be on increasing the productivity, income and output of the poor as a way to improve their income levels.

The Canadian approach, however, supported the domestic concerns within Canada about the growing inequities within developing countries. By focusing on the poor and the poorest countries, the objections of many Canadians regarding infrastructure to rich countries were addressed. However, the implementation of the BHN approach by CIDA illustrated the problems of a donor trying to undertake grass roots redistribution projects. The direct provision of food and other services to the poor was translated into projects such as wheat production, water supply and electrification to rural areas.

These projects were partly dictated by Canada's expertise since 80% of the aid funds continued to be tied. Ironically, this meant a high degree of non-local costs for these "grass roots" projects. As evidence from Tanzania showed (Young 1983), the benefits of these projects did not accrue to the poorest who were unable to purchase electricity or switch from staples such as maize to wheat.

The recommendation of the Strategy that all programs needed to be untied, underestimated the pressure which the commercial interests exercised on the overall program. The Canadian Exporters Association immediately lobbied CIDA officials and

insisted they be consulted before implementation of the decision (Carty and Smith 1981). This was supported by the Ministry of Trade and Industry. The Government gradually backed down from implementing the change.

The desire by CIDA to promote self-reliance also represented an attempt to implement a new policy approach. Partly in recognition of the NIEO debate which was an attempt by developing countries to gain regional self-reliance, CIDA began to stress the importance of promoting a strategy which involved self-reliance on the regional, national and local levels.

According to a study by Galtung (1978) for CIDA, self-reliance was needed at all three levels. The regional independence which could be generated by the NIEO approach could be undermined by dependence relations which might form between richer and poorer developing countries. Likewise, national self-reliance was not enough since a guard was needed at the local level which would prevent a take-over by the local elite.

The result was a strategy which attempted to build self-reliance at all three levels. Self-reliance was a goal with the path to that goal focusing on use of indigenous skills and resources. At the village level the production undertaken would be small scale enterprises and local producers. The market or demand within the village would dictate production. The national government would ensure that this local autonomy

could be maximized and would provide products or inputs which could not be done at the local level.

While this policy directive was apparent in the selection of countries for support, it was increasingly difficult to implement in the aid framework. A CIDA Policy Branch paper published in 1977 highlighted the inability to match objectives with reality. Calling the Strategy well intentioned, the Policy Branch paper stressed that a better plan had to be formulated to truly make CIDA programs aim at self-reliance. While foreign policy may have dictated an importance on self-reliance and this was accepted by CIDA's President, the departments only became sensitive in what they said not did. How the program could be implemented was never resolved.

The one area where gains were made in terms of the stated Strategy of 1975 was promoting "mutual self-interest". While the approach to the poorest countries was to provide basic needs and promote self-reliance, CIDA began to adopt an approach to middle income countries which focused on interdependence and building industrial cooperation. From a theoretical point of view, CIDA did not see a conflict between promoting basic needs, self-reliance and mutual self-interest in different countries. The principle of interdependence had been legitimized by the NIEO debates and as such still supported the approach being pushed by the developing countries.

At a policy level, CIDA saw an increasing emphasis on cooperation between Canada and the developing countries which was not based on the typical development assistance criteria but on a "reciprocal interest and mutual beneficial exchange" (CIDA 1975). The inclusion of the industrial cooperation and mutual dependence approach in the Strategy solved a number of problems. First, these middle income countries were much less reliant on donors for funding, at that time, since other options existed (such as the private banks). If CIDA was going to provide funds to these groups at all it had to find a niche. By focusing on private to private linkages between Canadian and developing country firms, CIDA avoided the problems of both competition and public ownership which prevented earlier programming allowing increased chances for disbursement of funds.

Second, an industrial cooperation program would serve the self-interest of Canada by assisting Canadian firms to directly participate in development. This idea was first raised in 1969 and a department of Business and Industry in CIDA was started in 1972 to help promote links. By the mid 70s domestic pressure increased for undertaking some direct programming. Canada's sagging economic growth pushed for increased ties between aid and Canadian benefits. CIDA's new President in 1977, Michel Dupuy, made this explicit by continually referring to the jobs and sales which were generated in Canada as a result of the aid program.

Third, the UNIDO Lima Declaration of 1974 targeted 25% of the world's manufacturing to developing countries by the year 2000. From a foreign policy perspective, Canada supported this target.

By defining mutual interest to mean direct industrial cooperation between private Canadian and developing country firms, CIDA set the stage for its first direct industrial programming (CIDA 1977). In 1977, the Industrial Cooperation program (INC) was formed to facilitate technology transfers, increase industrial capacity and promote joint ventures. The announcement of the program reflected a process of experimentation which was undertaken in 1976. Working in partnership with the business community, CIDA undertook pilot projects in nine countries aimed at identifying opportunities for linking the capabilities of the Canadians private sector and priority projects in the industrial sectors of developing countries.

The Canadian private sector along with government officials involved in industry and trade helped to design the program. The INC program was set up to be reactive to Canadian firms not developing country firms in an attempt to maximize support within the Canada for the program. The idea was presented in an international symposium in 1977 which also examined the success of similar programs in countries such as Germany, Great Britain, Belgium, the Netherlands, France and Denmark.

The previous objections to direct industrial support--competition with Canadian firms and public ownership--were even more overriding in the late 1970s. To develop a program without changing the basic theoretical approach to industrial issues required a structuring of the program which built on mutual support. The industrial program would be dictated by Canadian firms and therefore the program could be seen as reacting to both Canadian self-interest and development objectives.

1979 to Present

The two prong strategy as expressed in the **Strategy** of the 1970s--based on developmental concerns (basic human needs, self reliance and the poorest countries) and mutual interest concerns (industrial cooperation)--began to face increasing obstacles by the late 1970s. A number of structural changes occurred in the late 1970s and early 1980s: the second oil shock; increased interest rates; increased protectionism by developed countries; massive recession in developed countries; and a decrease in the availability of funds. These global shocks impacted the aid programming in terms of the opportunities at the developing country level and pressures for change in all donor programs.

While some developing countries were able to ride out many of the problems in the early 1970s, the second series of shocks in the late 1970s were more difficult to overcome.

Unlike the first set of shocks in 1973, developing countries had limited access to funds after the second series of shocks. At a time when demand for capital was increasing, the supply of resources was diminishing. In fact, the commercial lenders were no longer a path to more independent policy making but were now part of the problem. This factor severely limited the options of many countries.

The global factors changed the rules of the industrial game for developing countries, forcing them to accept fewer options. Suddenly, balance of payments constraints were dictating industrial policy. Levels of debts increased along with interest payments for existing facilities. Firms and state owned enterprises encountered financial difficulties and, in many countries, they began asking for increased assistance and protection from governments. Fiscal constraints meant that many governments became unable to meet the demands. Domestic and international markets were entering a deep recession.

At the developing country level, the options were becoming even more constrained than previously with countries falling into one of three basic groups. Those countries, such as most of Sub-Saharan Africa, which faced problems during the 1970s were now crippled by the international changes. Their reliance on donors for support for any programs has been increasing through the 1980s.

At the other end of the spectrum, countries like Korea, Malaysia and Thailand, while going through severe adjustments in the early 1980s, have in recent years reached an equilibrium with renewed growth. These countries have access to private capital again. However, the flow of funds has been voluntarily constrained in some countries such as Korea in an attempt to make the economy more independent of international fluctuations (OECD 1988a).

The third group consisted of a large group of countries ranging from Brazil to the Philippines. While these countries had potential for undertaking growth and industrial projects, funds were limited from private sources, constricting the possibilities for industrial programming. In some cases, a role began to develop for donors in providing the necessary discretionary funds for industrial projects (DAC 1987).

The approach to industrial development had to be altered within developing countries to reflect these economic changes. In most developing countries the previous approach to industrialization was one of active state involvement in orchestrating the economy and redistributing wealth. Social issues, independence from world shocks, and state participation in industries were all important concerns. The global structural changes taking place put pressure on the ability of countries to pursue this approach and forced them to look at development from a much more restricted position. Pressure was placed not only on decreasing the direct state

role in industrial projects, but the balance of payments problems also meant that many countries were forced to restructure their programs towards exports.

These dramatic changes at the recipient country level caused a tidal wave of movement within donors. The demand for traditional project lending decreased as countries no longer had the required local counterpart funds. The emphasis on social programming was lessened as attention shifted to meeting balance of payments (BOP) concerns. While donors were increasingly approached for funds, the requests focused on quick disbursing BOP support not lengthy project support. Donors had lost their market niche and were scrambling to find new ways to approach the growing market.

At the same time, pressures within developed countries triggered a theoretical shift in some countries regarding appropriate development models. The "European" theory of state capitalism was almost forcibly replaced in the early 1980s by the "American" philosophy of individual capitalism. Donor agencies such as the World Bank and US Agency for International Development were coming under attack.

The World Bank which had attempted to establish itself during the 1970s as the premier development agency was attacked the most viciously. Ayres (1983) provides examples of how the Reagan administration singled out the projects of the World Bank as examples of inappropriate programs. They were attacked on many fronts including in the press as promoting

inefficient development, which emphasized social concerns over questions of efficiency and effectiveness. These attacks were ironic given that the Bank continued to argue for policies such as realistic exchange rates and encouragement of exports throughout the 1970s. Yet arguments were presented in places like the Wall Street Journal and Forbes that the Bank was giving power to the poor and undermining capitalism.

These pressures within both the developed and developing communities caused a redefinition of donor programs. Some donors began to turn to industrial programs in an attempt to meet developing country demands, find a niche for aid and satisfy pressure from internal constituencies. The World Bank moved toward policy based lending with reforms in areas such as trade liberalization.⁸ Some other donors, such as CIDA, moved to provide firm level support through programs such as credit and technology transfers.

The underlying principles of many of the donors' theories of industrialization had not changed. Private sector development, export promotion and market orientation were still being emphasized. The shifts at the developing country level in strategies being followed, however, meant that the general policies being formulated were in basic agreement with these donors' biases. As individual donors began to develop

⁸ The reasons for this shift are covered more fully in Chapter 6.

industrial programs, their framework for analyzing issues began to differ.

a) Moving to Direct Support

CIDA's initial response to these developments was an attempt at organizational readjustment. Faced by the crises within developing countries and CIDA's inability to disburse funds under traditional programs, the aid agency reorganized its approach to aid disbursement.

The first step was a shift from a focus on programs to a country focus in 1982. Four geographical areas (Anglophone Africa, Francophone Africa, Asia and the Americas) were set up with programming being designed on a country by country basis. These country programs were a recognition that the experience of countries was becoming even more diverse with the structural crises of the late 1970s. With the emphasis on country specific analysis, CIDA wanted to develop programs which directly target toward the needs of a country--in effect, increasing the possibility for finding suitable projects.

While a new official policy approach was not put forward by the Canadian Government or CIDA, changes were becoming evident in CIDA's programs particularly in the area of industrial support. The organization was adapting to the realities in developing countries and increasing pressure within Canada.

The mutual support idea of the 1970s was gaining prominence within Canada as public opinion toward aid giving shifted. While public opinion in general still supported the humanitarian approach to aid, pressure was increasingly placed on the government--from a wide variety of sources besides just the commercial groups--to justify why Canada should be concerned with the problems of the rest of the world. Editorials were criticizing the way aid was being spent. Politicians and government officials increased their criticism of aid in direct proportion to domestic economic problems, attacking policies of developing countries in areas such as employment practices, investment regulations, or even human rights violations.

The result of this pressure can be seen in the increasing emphasis placed on the benefits which accrue to Canada from an aid program. The interdependence between Canada and the developing countries was stressed in annual reports and speeches by CIDA officials. The INC program was continually singled out and cited as an example of CIDA's commitment to the private sector. Despite numerous studies which clearly found no relation between aid tying and either economic benefits to Canada or long run development of trade links, tying continued at a level of 80% in the Bilateral program.⁹

⁹ See for example Hay (1978) which showed that tied aid was not only producing limited benefits within Canada but also reinforcing economic inequalities within Canada.

At the same time, CIDA also began to recognize the need for a better understanding of the industrial process outside of the INC context. This reflected three distinct issues. First, enterprises within developing countries were becoming increasingly important in helping to generate foreign exchange to fight the short run problems. This was particularly true for small scale enterprises which were dynamic during this period but also faced severe obstacles in many countries. In essence, a market existed for support from donors to firms with limited options in the private capital market. CIDA saw a potential for filling this niche.

Second, this area was also being increasingly targeted by some NGO groups within Canada. While focusing on micro and small scale enterprise, they pushed for increased recognition of this type of "grass roots" industrial support as being an important part of the adjustment process. As CIDA turned more toward the NGOs for assisting in development of programs, enterprise support increased in acceptability.

Third, these two shifts would not have allowed enterprise support, however, if shifts had not also taken place in the rationale or theory of industrial support. The increasing emphasis on private sector firms within developing countries as the engines of growth removed some of the traditional barriers to industrial assistance. The two previous obstacles to industrial support--the "public sector" hurdle and the issue of competition--were less relevant or open to criticism

from commercial groups within Canada. With the start of the country specific Bilateral programs aimed particularly at small enterprises, CIDA could undertake specific programs with the private sector in developing countries.

Implementation of this strategy in the early 1980s showed a shift in programming for CIDA. As country programming began to take place, the Bilateral desks were dealing more specifically with a particular country's needs. The desks were also increasing the role of Canadian private sector in helping to fulfil these needs. However, the approach was different from INC. While INC's primary objective was to serve and react to Canadian firms, Bilateral groups had the developing countries needs as their primary objective. The pressures which created the two programs were different and the "solutions" which they provided aimed at fulfilling different needs.

The Bilateral program became increasingly involved in enterprise development. As the structural crisis facing developing countries continued, the traditional aid departments found themselves more involved with assisting enterprises to adjust, to improve their access to inputs and improve their skills. The Bilateral program began to turn more towards small scale enterprise development, lines of credit to fund imports, and assisting with marketing and management skills.

The fact that these changes in Bilateral programming were motivated primarily by the needs and demands of the developing countries was an important factor in how they were implemented. The Industrial Services Section (ISS) of the Professional Services Branch was given jurisdiction over not only technical consistency but program formulation.

CIDA as a whole, due to domestic pressures, did not publicly promote these industrial programs within Canada. Despite the increasing importance of the Bilateral programs, INC remained the CIDA flagship for private sector interventions. This allowed the ISS a certain degree of independence and the ability to develop its own theory of industrialization within the organization which allowed a more developmentally driven analysis.¹⁰

This independence was one of the reasons why the approach developed by the ISS began to differ from some other donor approaches. While still operating within the private sector/market oriented framework, the ISS turned increasingly toward a more structuralist assessment of issues. Just as CIDA had differentiated itself from some donors in the 1970s with its emphasis on basic needs and self-reliance, so now was the ISS developing an approach which differed from the World Bank "outward orientation" approach.

¹⁰ The organizational structure and relations which supported this arrangement will be discussed in Chapters 4 and 5.

During the 1970s, a body of literature developed which focused on the success of export promotion pursued by some developing countries. A group of authors, characterized by Little et al (1970), saw a number of problems with import substitution. These problems included increased income inequality, slow job generation, bias against agriculture, low capacity utilization, strain on balance of payments and a neglect of comparative advantage of a country. In their argument, while industrialization may be a worthwhile goal, industrialization by import substitution caused fundamental distortions within the economy which resulted in biases against certain income groups, agriculture and more importantly exports.

While authors like Nurske saw the way out of the vicious cycle as generating demand through planned centralized industrialization, Little et al saw decreased government involvement, more reliance on market mechanisms and most importantly a reduction in price distortions. According to this argument, the growth of government intervention in the economy had resulted in protectionist measures which had driven a wedge between domestic and world prices for traded goods. This price distortion had severe ramifications within the economy since it caused resource misallocations, increasing inefficiencies, high domestic production, and higher domestic costs for products.

Numerous other authors such as Balassa (1982), Krueger (1985), and Bhagwati (1978) continued arguing along these same lines. Working within the neoclassical trade arguments, they built a case for "outward development". Support for this view was drawn from reviews of the experience of successful countries such as Taiwan and Korea. Based on these "success stories", the authors attempted to build a case for getting the prices right as the primary vehicle for allowing development. With the crises in the late 1970s, this literature began to gain support in places such as the World Bank.

Inherent in these analyses were a number of policy prescriptions that the authors felt would allow countries to break out of the cycle of adjustment. Increased emphasis on the private sector, a decreased role for the state and an emphasis on increasing efficiency of economies were critical to the approach. The neglect of an appropriate trade orientation was cited as the cause of a lack of competition, distortions in trade and inappropriate structure of industry. What was needed was a fundamental change in the policy approach--one that corrected price distortions and allowed the private sector to dictate an economy's industrial mix and growth.

While the approach taken by CIDA's ISS conformed with some of this analysis, it differed in three important assumptions. These differences in assumptions explain the theoretical

differences between the World Bank/outward orientation approach and the ISS/structuralist approach and are important in understanding the CIDA assessment of issues within the Philippines presented in Chapter 4.

The first distinction revolves around the role of prices. The outward orientation model is based on prices and assumes that prices respond flexibly to changes in supply and demand--quickly eliminating any gaps. Any bottlenecks in the system are perceived to be supply problems. The market, namely prices, will move in and solve them by adjusting the demand or supply as needed. As part of this formulation, the model relies on two factors of production--capital and labour. Other inputs into the process such as imports of capital goods are not included.

The ISS based model has a different perception of prices and inputs. When dealing with industries, markets are assumed not to be perfectly competitive, and many times do not clear. Prices are seen as responding mainly to costs and not changes in demand. Thus prices are set in an oligopolistic manner and are a form of mark up pricing. The inputs are capital, labour and intermediate imports.

Both the assumption of mark up pricing and of an intermediate import are important variations and are realistic within the developing country context. The number of firms in particular industries are usually limited and rarely faced with "perfect competition". The mark up pricing conforms to

the procedures most often used (Taylor 1983). Most of the manufacturing sector also requires an intermediate import and capital goods.

The second distinction between the two theories involves assumptions about people and classes. The outward orientation model is embedded in the liberal paradigm. The individual is the basic unit of analysis. A homogeneity exists among individuals who act "as if" they were maximizing utility. Actions are always rational and motivated by the same factors everywhere. These assumptions allow the model to operate in any geographical area and with any group of people. Class distinctions and conflicts among groups are eliminated.

The structuralist model, on the other hand, assumes that at least two classes are evident--at a minimum workers and capitalists. The marginal propensities to save are assumed to be different between the two groups. Workers have no savings, while capitalists save a fixed proportion of their earnings. This sets up a relationship which sees shifts in income distribution with each change in the marketplace. Shifts to capitalists may increase savings, but will also decrease aggregate demand through decreased relative earnings of workers. Wages are not a function of the demand for labour but are a product of the wage bargaining process. As such, money wage is assumed to be fixed in the short run, not responding flexibly to changes in supply and demand.

The last distinction is the role of investment. In the neoclassical model, Say's law is predominant, contending that supply creates its own demand. This means that in equilibrium savings must equal investment, through the action of the interest rate.

In the structuralist model, savings does not have to determine investment and the interest rate is not the prime determinant of either savings or investment. Long run investment is the function of expectations of future profits, and as such is determined by firms. As the profit rate or the rate of capacity utilization increases, growth rate of capital stock (investment divided by the existing stock) increases. Income distribution adjusts through forced savings to meet the levels of capital formation.

Based on this thinking, the structuralist approach is critical of the "outward orientation" model. A primary reasoning for the intervention in the industrialization process is a recognition that price alone could not put an economy on an optimum path. The importance of economies of scale, the market imperfections, and complexity of production processes negated price as the sole determinant for investment. Pack and Westphal (1984) argue that these factors are still important and as a result price guided investment can not be the sole approach taken.

The approach taken by CIDA's Industrial Services Section is strongly connected to the structuralist interpretation of the

current situation facing developing countries. An **a priori** solution does not exist for industrial development. While the promotion of exports is an important short run strategy to assist with balance of payments problems, the promotion of exports is not an end in itself. These sectors must contribute to building vital linkages within the economy which promote self-reliance.

The price mechanism is not viewed as the market clearing mechanism. Problems such as non-competitive markets and non-availability of inputs act as obstacles which prevent the industrial sector from developing. Interventions are needed directly at these levels which attempt to overcome the obstacles at the firm level.

b) Changing the Official Policy Framework

An aid review was begun in 1986 which attempted to provide a new formal framework for the CIDA programs. Three factors were key in promoting this review: the shift in political parties within Canada; the increasing inability of CIDA to deliver programs; and pressure from the donor community to conform to the "new aid approach".

First, the election of the Conservatives in Fall 1984 began to change the overall aid debate within Canada. The Conservatives saw the development process more in terms of the need to rely more heavily on the private sector to solve problems. An increasing importance was placed on assisting

the private sector in developing countries, on microenterprise development as a route to improve the position of the poorest, and on lines of credit aimed at overcoming import bottlenecks for industries.

A Conservative Task Force in 1986 clearly stated for the first time that industrial development should be a legitimate part of both Bilateral and INC programs. It also indicated that, unlike the Liberal Government approach, programs for least developed countries should be treated differently than those for more developed countries. For the former, CIDA should provide small amounts of support to industrial endeavours while for the latter, industrial development should be the primary program focus.

Second, since the late 1970s CIDA had become merely a responsive agency--fire fighting its way through programs without developing a clear approach. Canada was trying to run a multisector program in over 80 countries through a system which had become increasingly bureaucratic. While countries wanted quick disbursing assistance, CIDA's approval procedures were becoming longer. As changes were continuing to take place within the organization, new layers of issues and decisions were making the environment more complex. As a number of CIDA officials indicated to me, the ad hoc approach had to change.

Third, a review had been undertaken between 1982 and 1985 by the Task Force on Concessional Flows of the World Bank and

IMF. The results stressed the need for increased donor coordination and a clearer definition of responsibilities between multilateral and bilateral agencies (Development Committee 1986). For bilateral agencies priorities such as provision of technical assistance, institutional support and aid to the poorest countries were stressed.

A Parliamentary Committee was struck in 1986 to review the state of aid within Canada. The review was intended to address questions such as what conditions Canada should attach to its aid, what was the purpose of aid given the climate from the mid 1970s, what role program aid should play and who should be receiving aid. The Committee had members from all political parties which meant that its results were to be based on a consensus and extensive public hearings were scheduled to receive input from a wide range of people.

The Parliamentary Committee produced a report in 1987, referred to as the Winegard Report, which set out its approach to aid (Canada 1987). This report was subsequently adopted by the Government (Canada 1987) and, in a slightly revised form, by CIDA (1987). The strategy focused on two concepts: human resource development (hrd); and meeting the needs of the poorest countries. Humanitarian objectives were put forward as the primary force behind the aid program and the reason for the focus on the poorest. CIDA's unique contribution (or aid niche) was defined as hrd or institution building.

The reasons for this particular approach to aid resulted as much from a desire to avoid certain issues as it did from a concrete definition of what should be tackled. The most critical issue avoided throughout the review process was the issue of the Canadian private sector role in aid. The Committee moved away from defining what the CIDA strategy should be for individual sectors (such as industry) saying that the sectoral focus should be defined at the country level. The assumption was that each country needed a strategy which reflected its own situation and priorities and therefore sectoral programming needed to be developed for specific situations.

While from a development point of view this approach has merit, the decision not to directly address industrial issues reflected a far more complicated set of pressures. Many of the staff I had contact with at the various Bilateral desks expressed their dismay and concern that industrial development was not being directly addressed. In fact, within CIDA, private sector development had become the issue to address by 1986. The question then became why did the Government use the nonsectoral focus of the Winegard report to avoid an important question--what role should the private sector play in aid?

Many staff members had informal views on this, although two reasons repeatedly were mentioned to me. First, the Government since 1984 had been increasing the role of the Canadian private sector in delivery of aid programs. However, the

Conservatives had begun what some staff called a parallel aid program. Many of the projects which had been approved in the last few years had originated from the Minister's office not from the assessments of the Bilateral desk. The politicalization of the process meant that the Minister was increasingly using a small group of firms to participate in Bilateral private sector to private sector projects. The CIDA staff members felt that acknowledging enterprise development as a priority would result in setting up a system of criteria for undertaking programming which would decrease the options for patronage from the Minister's office.

Second, the private sector within Canada wanted its role acknowledged so they could increase their leverage and get CIDA to stop dealing with the poorest countries. The Canadian Chamber of Commerce (CCC) made a submission to the Winegard Committee which clearly stated that the basis for Canadian aid programs should be "economic development" not humanitarian needs. The CCC felt that the greatest contribution to developing countries would be to assist NICs and middle income countries which had "reached a stage where resources can be absorbed" (CCC 1987).

Politically, Canada could not place priority on middle income countries. The public support for the aid program in Canada was based on humanitarian concerns not commercial. While people expected some return for the aid dollar, they saw aid more as a vehicle to tackle problems such as poverty,

hunger, and environmental issues. In fact, to many people, assistance to NICs would raise questions about negative impact on the domestic economy.

An additional reason for not tackling industrial programs directly related to the traditional approach CIDA had taken to the industrial sector. While undertaking more Bilateral industrial programming, the Government of Canada was emphasizing only its involvement in the INC program in its annual reports and official documents. Despite the statements of the 1986 Task Force regarding the need to have a spectrum of industrial programs, the Parliamentary Committee backed away from more blatant support for increased private sector involvement. CIDA continued to appear reluctant to acknowledge direct support in any context except the "mutual self-interest" argument. It was easy to make this argument for INC; more difficult for the Bilateral programs.

The support of many of the submissions to the Parliamentary Committee was clearly on a more traditional humanitarian approach to aid. African famine relief movements were strong in the mid 1980s in Canada and the hearings received many submissions which stressed the need to address poverty and the poorest countries. The donor community was also stressing that aid should focus on the poorest countries and not on the middle income (Cassen and Associates 1986).

NGOs and university representatives both emphasized the importance in defining a clear program aimed at developmental

concerns. How this should be accomplished differed, however. NGOs thought funding should be increased to support the NGO driven programs, not programs which were set by Bilateral objectives. Universities and academics pushed for some form of human resource development. NGOs, universities and business groups all pushed for more funds being directly given to them to deliver programs.

In addition, from a political point of view, the Mulroney Government wanted to ensure that it remained part of the development debate on a global level. Canada during the 1960s and 1970s, had received the reputation of not being afraid to be critical of the stands being expressed by other developed countries.¹¹ This was reflected in the view of Canadian aid by the World Bank.

A number of people I interviewed at the World Bank in 1986 were particularly critical. They saw CIDA as potentially undermining the "coherent" approach which the World Bank was attempting to develop. For them, the Bank had established itself as the primary development institution which set the development agenda, negotiated the policy changes on a country by country basis and set the pace for other agencies. The other multilaterals were seen as vehicles to support the pressure for change. The bilateral donors then were the

¹¹ This is reflected in the previous discussion of the Trudeau Government wanting to appear to be a mediator in North/South relations.

agencies which provided technical assistance and "projects" which allowed the implementation of the Bank program.

While Prime Minister Mulroney wanted to continue the tradition of independence, he also wanted to more closely align himself with the overall donor movement. The human resource development niche was one which was identified by a number of donor reviews as being important one to fill (Cassen and Associates 1986). It also conformed with pressures within the domestic scene. Support of the structural adjustment movement was seen as important for the overall donor community, but here Canada wanted to clearly state the adjustment must be done with equity.

The result of these pressures was reflected in the Winegard report and CIDA's **Sharing Our Future** (SOF) which was to be the focus of CIDA programming from 1987 onward. The primary emphasis was on human resource development, structural adjustment with equity and poverty alleviation. The focus of the CIDA programs was to continue to be on the poorest countries. While industrial programs were becoming more extensive in both the Bilateral and INC areas, they were not specifically acknowledged as a component of its programming.

Conclusions

CIDA has gone through a number of cycles of policy formulation and reformulation. Each of the stages reflected policy changes within CIDA which were brought about by a

growing climate of uncertainty. The uncertainty resulted from changes in global economic situation, changes in the demands of developing countries for aid, pressure from the developed countries to shift approach, domestic pressures, and the recognition within CIDA that the organization no longer offered viable programs.

When the uncertainty became acute, policies were reformulated both formally and informally. The process of reformulation was a constant juggling of domestic and international factors. On the international side the approach of other donors had a critical role--particularly during the 1950-1960s. The opportunities for supplying aid to developing countries determined where the new niche might be for future programs. On the domestic side, the constituencies--pressure groups, public opinion, government agencies, geopolitical concerns--all played differing roles over the last thirty years. While commercial groups were the easiest to trace to changes in industrial programming, other factors have many times been more important in defining programming.

During these cycles of change, industrial programming went through a number of stages. Traditionally, CIDA avoided direct support to industrial ventures. While indirectly providing support through infrastructure and training, direct support did not begin until the late 1970s. The reasons for this lack of programs historically were threefold. First,

groups within Canada feared that industrial groups assisted by aid might become future competition for Canadian firms.

Second, the international donor community did not perceive direct aid to public sector industries as appropriate. While support was given to large scale ventures by some donors, Canada turned its focus to providing support to the public sector in other ways such as infrastructure provision. Third, the demand for funds for industrial projects decreased in the 1970s with the increase in funds from the eurocurrency market. Those countries who had few private capital options turned to donors for support of industrial projects--which provided a very limited market.

The first direct involvement in the industrial area came during the mid 1970s. CIDA developed a program based on domestic commercial pressures which aimed specifically at supporting the efforts of Canadian firms in developing markets. Based on the argument of "mutual interest", the INC program was totally driven by demand from Canadian firms not developmental criteria or objectives.

By the late 1970s and early 1980s, CIDA recognized that an industrial program based on developmental objectives and driven by developing country demands should be a critical part of its programming. Conditions in a number of areas allowed this change in approach. The balance of payments crisis at the recipient country level was decreasing the options for state involvement in direct industrial projects. Emphasis shifted

to the private sector as motivator which conformed with donor biases. The "market" for donor funds reappeared as BOP problems consumed the ability to undertake industrial projects. Adjustment at the firm level was severely hindered by lack of access to adequate funds. Groups within Canada, such as NGOs, were confirming that support to small scale enterprises would not only meet development objectives but would pose little threat to Canadian economic efforts.

CIDA changed its approach. Industrial projects became legitimate parts of programming for selected countries. While not a priority in the assistance to Africa, it became increasingly important in Asia. The industrial programs expanded to include not only INC projects which were responsive to Canadian firms but Bilateral programs which were intended to respond to the developing country needs. While the aid review which culminated in 1987 did not officially endorse the Bilateral industrial programs, they continue to be an important factor within CIDA operations.

Obviously conflict is inherent in terms of the objective of programs and how they can be implemented. While CIDA policies call for building self-reliance in recipient countries, policies such as aid tying and building partnerships act to increase interdependency of development. How these conflicts get worked through the system will be dealt with in Chapters 4 and 5. We now turn to the Philippines with an investigation into that country's fluctuating policies.

III. FRAMEWORK FOR LOOKING AT THE PHILIPPINES

What makes an effective industrial policy? Is there a uniqueness of experience which negates attempts at developing replicable models for programming? Or do universal applications exist which allow the experience of one successful country to guide the development of other countries? The inability to conclusively answer these questions has been the foundation of debate about industrial strategies for decades--and will continue to be in the future.

The theories outlined in Chapter 2 begin to provide at least partial answers to these questions. Many theories of the 1950s and 1960s such as Rostow's stages of growth assumed there was universality. Rostow assumed that one linear path to modernization existed. The speed with which a country moved through the five stages of development could be sped up by promoting changes in the economic, social and political structure of a country. The outward orientation approach of the 1970s and 1980s has focused on what certain authors perceive as the sameness of experience of the Newly Industrialized Countries (NICs). These analyses have not only attempted to outline appropriate policies but also to develop quantitative measures such as the effective rate of protection and domestic resource cost which could act as determinants of appropriate policy mixes.¹

¹ See for example Bhagwati (1978), Balassa (1982) and Krueger (1978).

Other groups contend that the experiences at the country level are **sui generis**--unreplicable between countries. Too many factors come into play to precisely draw causal lines between a particular policy and a successful result. This is the foundation of the structuralist work of the 1970s and 1980s mentioned previously. Authors such as Taylor (1988) argue that success or failure of an intervention depends more on historical and institutional characteristics of the country and how its institutions respond than it does on the policy followed. While lessons can be learned from other countries, policies can not be translated from one locale to another with exactly the same results.

The underlying assumptions of both of these theoretical approaches set the framework for how issues are analyzed at the country level. Both groups of authors would provide different explanations for the Philippines inability to capitalize on its industrial potential. The outward orientation group would focus on issues such as the continued high protection under import substitution which has biased the system against exports. The structuralist approach would see the application of industrial strategies as the problem since this caused extreme biases within the industrial structure. These two analyses, in fact, illustrate the differences in assessment between the World Bank and the Canadian International Development Agency's (CIDA) Industrial Services Section which are the focus of the next chapter.

To put these donor assessments into context, however, it is important first to have a basic understanding of the character of Philippine industrial development. This is presented in three ways. First, some indicators of development will be reviewed to provide general benchmarks for assessing development to date. Second, the experience of other countries will be briefly introduced to provide insight into the spectrum of possible industrial strategies and where the Philippines positioned itself on this spectrum. Third, the policies of the Philippines from the 1960s to early 1980s will be assessed to ascertain how problems began and the distortions within the industrial structure.

The three sections of this chapter are not intended to be indepth, however. Instead, the information presented focuses on providing the background needed to understand CIDA's assessment of industrial issues within the Philippines.

Indicators of Success

While no agreement exists on the causes of success, numerous attempts have been made to define what "success" is or what it means to be a NIC. These criteria for describing NICs are based on **ex post** assessments. By most of these measures, the Philippines has been on the verge of breaking into the NIC category for a long time.

According to Chenery et al (1986) a number of initial characteristics--namely size of domestic market and resource

endowment--strongly influence a country's ability to effectively pursue industrialization. These factors allow an early movement into import substitution, a higher manufacturing share of GDP and lower shares of exports and imports (i.e. less dependence on the world economy). The Chenery model then indicates that countries should be able to move toward more open trade arrangements--the import substitution then export arrangement which has allowed countries such as Korea to grow.

The large domestic market, high resource endowment and highly educated labour force in the Philippines have provided a strong basis for development since World War II. While these factors did allow the Philippines to attain a relatively high share of manufacturing in GDP and fairly independent status, the Philippines was never able to effectively make the transition to more open trade arrangements. The characterization of the Philippines in the Chenery analysis (Chenery et al 1986) as a "neutral" trade environment (not strongly biased towards exports or imports) means that, according to Chenery, the policies per se do not supply the answer to why the transition was not effective.

A UNIDO study (1985b) found a high correlation between structural change in manufacturing, growth rates of value added in manufacturing and growth in manufactured exports. As Bradford and Branson (1987) point out, these changes in sectoral composition of output and exports, rapid industrialization and surge in manufactured exports are all characteristic

of the NICs such as Taiwan, Korea and Brazil. In terms of these measures, the Philippines scored high between 1965 and 1980 (UNIDO 1985b). However, during this period the industrial sector became an increasing lag on the economy, not its basis for dynamism.

The World Bank in its **World Development Report 1983** introduced the idea of price distortions as a way of understanding why an economy was not achieving its potential. Going back to the outward orientation reasoning explained earlier, the contention was that high growth rates were associated with low price distortions. This was extended in 1985 to correlate high price distortions with increased likelihood of debt servicing problems (World Bank 1985b). On the World Bank scale, the Philippines has one of the lowest composite price indices. However, growth rates in recent years have decreased while debt servicing has increased to an almost stifling proportion.

All of these attempts at dissecting the issue of industrial programming provide interesting inputs into the debate--providing benchmarks against which countries can assess their situation. What they can not provide is an understanding of why a country like the Philippines has not reached its potential. According to most of the standards, the Philippines has been a relatively open economy with low levels of public ownership and reasonably sound fiscal policies. In a sense, it has followed what is considered an "appropriate" route.

The strategy has been derailed along the way, however. While the country has the right "indicators" it does not have the right outcome in terms of a dynamic industrial sector.

Typologies of Development

Many of the current approaches to industrial development attempt to place the experience at the country level into straight-forward models. Either a country was outward oriented or inward oriented; either the state took a proactive role or laissez faire. The strategies at the country level are rarely ever that straight forward, however. In fact, my sense is that a spectrum of policies and actions exist within countries. A country's decision about where it wants to be on the spectrum reflects a wide range of factors including resource base, market size, geographical environment, priorities, constraints facing the country, political and social concerns.

The typology which follows in Chart 1 is an attempt to lay out the spectrum of options which I believe were available to developing countries between the 1950s and late 1970s.² These timeframes are qualified since some of the policies--namely

² The country names mentioned on Chart 1 are meant to be indicative of countries which at some point followed this route. For example, Egypt's attempt to follow a national priorities approach ended in the early 1970s. Sri Lanka's priority on supporting basic needs began to shift in 1977 with the increase in balance of payments problems. Countries have shifted between the approaches and have undertaken various parts of any one typology more or less strenuously than other countries.

Chart 1
 TYPOLOGY OF DEVELOPMENT STRATEGIES
 PURSUED IN THE 1950s TO 1970s

NATIONAL PRIORITIES (Large Country)					INTERNATIONAL ORIENTATION (Small country)
	Goal:	Growth as Vehicle for National Goal of Self-sufficiency	Goal:	High Growth	
China India Egypt Indonesia	Objectives:	Capital Creation Development of Skills Technical Capability Employment	Objectives:	Generation of Net Revenues Exports- Foreign Exchange Skill Development Productivity	Ivory Coast Costa Rica Taiwan Singapore Hong Kong
	Trade Policy:	Autarchic	Trade Policy:	Open	
	State Role:	Mixed Ownership	State Role:	Facilitator Provide Infrastructure	
	Foreign Investment:	Participation in Selected Industries with Controls	Foreign Investment:	Strongly Promoted No disincentives	
	Technology & Skills:	Internal Generation of Technology High Technology Skill Development	Technology & Skills:	Technology Imported Improved Skills to Increase Flexibility of Production	
97 Sri Lanka Tanzania Uruguay Ghana (Small country) DOMESTIC ORIENTATION					ECONOMIC PRIORITIES (Large Country)
	Goal:	Growth as Secondary to Basic Needs	Goal:	Growth as Vehicle to Overall Development	
	Objectives:	Employment and Income Generation Links with Agriculture Infrastructure & Investment Stability and Independence, SSE	Objectives:	Generation of Net revenues Capital Creation More Efficient Resources Generation of Foreign Exchange	
	Trade Policy:	Limited with High Protection	Trade Policy:	Selective Policies According to Sectors	
	State Role:	High Degree of Involvement	State Role:	Strong but With Targeted Development	Mexico Thailand Philippines Korea Malaysia Brazil
	Foreign Investment:	Disincentives Careful Regulation	Foreign Investment:	Selectively Promoted	
	Technology & Skills:	Appropriate Technology Emphasis on Basic Education	Technology & Skills:	Adaptation of Technology Attention to Higher Education	

domestic orientation and national priorities--followed previously are no longer viable under the changing conditions explained in Chapter 2. During this timeframe a country could be located anywhere along the spectrum and many countries moved between categories.

The differences among countries in terms of industrial policies were directly related to the goals the countries were pursuing. Some countries such as Hong Kong and Taiwan placed the emphasis on achieving high growth and chose policies to support this. For others, such as India and China, the aim was to increase national self-sufficiency with strategies that focused more on domestic capital formation and technical skill development.

The size of the economy was an important variable in terms of which approaches could be chosen. The extreme openness of the international orientation approach made it attractive to many small countries with limited resources in terms of financial markets, technology, labour skills or access to markets. Without internal markets and skills, the more selective approach of the economic priorities could not be undertaken. On the other hand, the extreme case of national priorities could only be pursued by a country that was large--such as China and India. Delinking from the system required not only a wide range of resources within the country, but the ability to sustain development with an almost autarchic approach to trade.

These groupings obviously conceal the intricate differences between the experiences of various countries. They are meant simply as a way to organize that experience, making some broad conclusions and comparisons between groups. The application of strategies differed significantly between countries. As well, some countries were more successful with a strategy than others. The intention is to place the discussion of the Philippines into a broader context initially by providing some evidence of past experience in other countries and some of the critical points for success and failure.³

Within this spectrum, the Philippines has maintained an approach which would closely relate to the economic priorities group. The stated goals of the Philippines have never focused on issues such as basic human needs, increased income distribution or development of a strong nationalistic spirit. Instead, until President Aquino was elected in 1986, the government policy statements had focused exclusively on issues such as generating foreign exchange through increased exports and investment buildup. The approach was a tempered,

³ As seen in Chapter 2, the emphasis of donors vis a vis industrial development has been to promote the International Orientation type of approach. Not only does the state take a facilitator role (providing social overhead capital) with the private sector in the lead but the economy is open to foreign ownership and trade. This has become quite explicit with the new approach of the World Bank through the Structural Adjustment Lending conditions with its emphasis on the outward orientation model. The CIDA ISS approach, in practical terms, would equate more to Economic Priorities where the state takes a more active though targeted role in the economy to help overcome bottlenecks.

strategic one--open to trade and investment on a selective basis, limiting direct investment in public enterprises and promoting high educational and technical skills.

a) Trade Policies

All developing countries at some point undertook an import substitution strategy (Balassa 1982). The Philippines followed a strong emphasis on import substitution to the mid 1960s then export oriented strategies were put in place. Problems arose with the transition from import substitution to export promotion, however, which undermined the opening of the economy.

The experience of other countries shows that the important question is not whether import substitution was followed but how and when it was replaced by a more world oriented regime (Chenery et al 1986). Firms must become competitive in international terms to effectively make the transition. Without the increase in competitiveness, import substituting industries will, many times, continue to be effective only within protected walls. This was the situation within the Philippines.

A number of countries in the international orientations group were among the first to switch from import substitution. For countries like Hong Kong, Taiwan and Singapore, the possibilities of the strategy quickly dried up with such limited domestic markets (Ballance, Ansani and Singer 1982). The

rapid switch worked well for these three countries which were able to build flexibility into their industrial structure which allowed rapid changes in response to changes in external world demand. Ivory Coast's shift to exporting without building a local domestic base, however, proved to be very high risk. With a strong primary product base, the Ivory Coast undertook a less diverse approach to manufacturing. This inflexibility caused severe problems in the 1970s as the world markets for those products dried up (Rondos 1979).

Attempts at striking a balance between import substitution and a more world oriented approach have not always been successful. Some countries following the domestic orientation route have attempted to increase exports while trying to control for the types of problems faced by the Ivory Coast. The result was many times a complex set of regulations on both imports and exports which do not increase independence nor provide stability. Before the reforms in the mid 1970s, Uruguay had one of the most complicated trading systems with a wide variety of regulations controlling the amount and type of exports and imports with only limited positive impact on the industrial sector (Mezzera and de Melo 1985).

One of the masters of the import substitution then export pattern of development was Korea. The Korean incentive structure assisted companies through three stages of development. The first was an import substitution stage where companies were not expected to be competitive and were protected by a

series of tariffs and other supports. Once they reached a certain economies of scale, the government provided a different series of incentives and assistance including marketing information, tax exemptions, and tariff exemptions aimed at breaking into the export market. The firm was then expected to eventually become efficient enough to compete on the open market with only minimal government support.

Direct foreign investment has also displayed a wide range of potential and problems for developing countries. Some countries such as Tanzania have undertaken a carefully regulated approach to foreign investors. From the late 1960s to mid 1970s foreign investment was only permitted in certain sectors of the economy and only on the basis of joint ventures with the state (UNIDO 1986a). Costa Rica's approach was not only open to direct foreign investment but strongly supported foreign investment as a primary means of industrialization. A full set of incentives were extended including tax exemptions and full repatriation of profits. While the approach worked initially, the investors were primarily interested in obtaining preferential access to the regional integration group. With its collapse, no incentives were large enough to make investors stay (Weeks 1985).

A vast literature has grown which deals with the pros and cons of direct foreign investment.⁴ The Philippines has

⁴ See for example, Agosin and Gold (1986), Hill and Johns (1985), Oman (1983) and Kindleberger and Audretsch (1983).

traditionally kept a fairly open approach to foreign investment with the result that substantial investment has been undertaken in the last twenty years. Whether this has been good or bad has been the subject of great debate within the country and was one of the issue which triggered the imposition of martial law in 1972.

Countries can find a middle ground between the desire to follow nationalist objectives and its approach to foreign investment. Malaysia is an example of a country that has been able to attract foreign investors while still undertaking rigorous policies to increase the economic benefits to the Malay population. It is extremely difficult to strike this balance, however, and much depends on the economic health of the economy.

b) Role of the State

One area which currently inspires great debate is the issue of what role the state should play in industrialization. Some studies such as Krueger (1985) contend that the state should be merely a facilitator of the industrial process and should not even target industries for development. While the small countries following the international orientation route seem the closest to this "ideal", it is debatable whether even they have stayed out of more active orchestration.

No country followed a totally laissez faire approach. The issue is not whether the state should be involved in

industrial programming but how it can effectively promote industrial change. For example, Taiwan clearly targeted industries and intervened in the economy when the government felt it was necessary (Ballance et al 1982). This state intervention is even more apparent in the economic priorities approach. Here the state consciously manipulates trade regimes, ownership, and investment patterns to target particular sectors for development. This is seen in a wide range of countries from Brazil to Mexico.

The form of state participation within India during the 1950s and 1960s was an extreme case of this orchestration. India pursued a conscious program of mixed ownership. Both private firms and public agencies were active within the industrial sector, but the roles between the two groups were quite distinct. The public sector undertook direct ownership of much of the heavy industry sector. The private sector was relied on for the spin-off production units. An elaborate system of incentives and supports were used by the state to not only target particular sectors but also locate industries and establish capacity (UNIDO 1979a). This expanded public role fit the goals of the overall approach--namely increased self-sufficiency, employment and the ability to ensure that the surpluses from investment were reinvested.

By comparative standards, the role of the state in the Philippines was relatively small. By limiting public ownership, it maintained one of the lowest rates of state

owned enterprises. However, the direct interventions which were taken became more oriented towards biasing the system in favour of a few firms than promoting industrial change and strengthening the overall manufacturing sector.

c) Technological Change and Skill Development

The last issue which has been important to each of the four approaches is the emphasis on technical change and skill development. Inherent in structural change within the industrial sector is the increased use of technology and the development of domestic skills to effectively deal with that technology. This incorporation of technology has been a foundation of industrial strategies (i.e. Kuznets 1966).

The thinking now, however, is that developing countries can not simply transfer technology as is and expect it to substitute for domestically generated technology. On the other hand, it is not necessary to generate a large portion domestically as the India experience has shown. Instead, technology can be transferred from abroad and adapted to local conditions--preferably by a domestic skilled labour force (Pack and Westphal 1984). It is in this adaptation which the Philippines has experienced the most problems.

Two countries which have approached technology in this way have had success in adapting it to meet their needs. Taiwan took the route of obtaining technology from abroad as is and then developing local skills to allow a flexible labour force

able to quickly adapt products to changing market conditions. Korea was much more careful about how technology was transferred. Not only was the technology adapted to local conditions but emphasis was placed on building technical skills which allowed the adaptation to be generated from within Korea (Pack and Westphal 1984).

Obstacles to Success in the Philippines

What these typologies show are the range of interventions which countries have taken since the 1950s. Within this context, the Philippines has consistently taken a conservative approach to industrial development. It has pursued a number of policies which have been effective in other countries such as an early shift to export promotion, targeting industries for state support, and supporting the development of technical skills. Yet the Philippines has been relatively unsuccessful in making these policies work.

Some answers to why this is the case are outlined in this section. The reasons can be found more in how the policies were implemented than in what policies were pursued. In fact, the typologies indicate that the differences between success and failure of an approach can relate more to the application of the strategy, the goals being targeted and the environment within which it is being implemented.

An overview will be provided here of some of the reasons why the Philippines has not been more successful. The analysis is

not intended to be indepth but simply background for the next chapters which define CIDA's approach to the Philippines industrial scene.

a) Import Substitution then Export - What Went Wrong?

The initial import substitution phase in the Philippines began in the early 1950s. The controls, initially aimed at supporting domestic consumer industries, produced manufacturing growth rates of 14% between 1949 and 1953 and 11% between 1953 and 1957 (Ofreneo and Habana 1987). As expected, the structure of manufacturing also changed from a heavy reliance on sectors such as food processing to textiles, machinery, paper and chemicals (Bautista and Power 1979).

The momentum of import substitution lessened by the early 1960s, following a similar pattern seen in other countries (Hirschman 1968). The import substitution policies were coming under increasing criticism from a wide range of groups. One group (which included US businessmen and the International Monetary Fund) advocated an increase in exports and liberalization of the trade regime. To this group, the problems with import substitution revolved around issues such as inefficiency of industries due to protection, higher costs of goods to consumers, excessive dependence on imported inputs and the growing income inequality generated by the growing wage gap between modern and traditional sectors (Power and Sicat 1981). To reverse these problems, exports in products

of comparative advantage should be pursued, trade should be liberalized and an attempt should be made to attract foreign investment to infuse capital into the system.

The other principal group of critics focused on the need to move to the second level of import substitution--namely domestic production of capital goods. This group represented a wide variety of interests including Philippine businessmen who benefitted from the existing protection, political economists who saw the end of import substitution as an inevitable increase in dependence on the US and radicals who saw import substitution as an "anti-imperialist tool" (Ofreneo and Habana 1987). The criticisms of import substitution centred around issues such as the creation of national elites with little expertise, weak manufacturing sectors focusing on light manufacturing, continued heavy import dependence due to the failure to develop sectors producing intermediate and capital goods, and high foreign ownership.

This nationalist sentiment was particularly critical of the large number of US firms which had entered the Philippines, set up assembly operations, and not contributed to "real" industrialization (Bello et al 1982). The solutions proposed focused on implementing a nationalistic industrial program with tighter controls on foreign investment, extension of import substitution to capital goods and massive income redistribution.

Obviously the export promoters and the nationalistic group saw the industrial process in very different lights. These differences formed the foundation for debate throughout the 1960s to early 1970s. While the debate was temporarily decided during the mid 1960s, the real resolution did not take place until martial law was declared in 1972.

The balance of payments crisis and the resulting need to obtain funds from the International Monetary Fund in 1962 triggered a full liberalization of import controls such as licenses and import bans. This took place along with a devaluation and a dismantling of foreign exchange controls. These measures resulted in rapid increases in import volumes after 1963 and a slowing of growth in manufacturing to 3.7% in 1960-65 (World Bank 1987). When President Marcos took over in 1966, he continued the decontrol policy and began stressing export promotion. A Board of Investment was established, export incentive laws enacted, export processing zones undertaken and a floating exchange rate put in place (World Bank 1987).

The decontrol phase was not without trade-offs, however. The industrialists who received protection during the 1950s pressured for the retention of tariff protection. While other reforms could be made in the trade regime, tariffs were to stay. Thus a trade-off occurred--while direct controls were eliminated and the peso devalued, tariffs stayed in place (Baldwin 1975).

The debate regarding industrial programming did not end with these initial measures. The group of people advocating a more nationally oriented approach to development became more vocal and organized. The constitutional convention in 1970 which was to rewrite the basic laws of the Philippines became a platform for many of the dissenting industrial voices to express their concerns particularly about foreign ownership. At the same time the groups on the left started demonstrating for a more nationalistic approach to development putting more pressure on the system. These pressures triggered decisions such as the Supreme Court ruling in 1972 which decreed that lands acquired by Americans since 1946 would be subject to forced sale or expropriation (Bello et al 1982).

The polarized debate between import substitution and export promotion was forcibly ended in 1972 when Marcos declared martial law. The Marcos Government moved to increase the incentives for foreign investment and local exporters and stated strongly its support for export promotion. At the same time the Government indicated that it intended to dismantle the import substitution instruments such as quantitative restrictions and tariffs.

A study undertaken by the International Labour Office (ILO) in 1974 was quickly endorsed by Marcos. The ILO team reinforced the criticism of import substitution such as the increasing disparity in income distribution and regional development, profits being captured by a few industrialists

and increasing capital intensity of industries. The ILO called for a move toward a more market oriented, export based approach which would increase employment and equity. The export drive envisaged by the ILO was based on the development of labour intensive industries, regional decentralization of government administration and a "sharing in development" by the populace.

The gains made during the 1970s in terms of exports were impressive and resulted in the structural changes to the economy mentioned earlier. The proportion of exports to value added in the manufacturing sector grew from 1.5% in 1960 to 4.7% in 1970 to 13% by 1980. The export of non-traditional products increased in constant US dollars from US\$1.028b in 1970 to US\$2.353 in 1980.

The problems of the late 1970s--oil price increases, recessions, increased interest rates and decreased commodity prices--triggered a balance of payments crisis within the Philippines. At that point, the Government came under attack for its industrial policies. The World Bank blamed the problems of the economy on the unwillingness of the Marcos Government to totally dismantle the import substitution system and the need to increase export incentives (World Bank 1980). This analysis became the foundation for the World Bank Structural Adjustment Lending (SAL) in 1980.

Other criticisms saw the root of the economic problems outside of import substitution. Bello et al (1982) blamed the

export promotion strategy itself for the crisis. Their contention was that battering tariff walls and forcing open regimes toward foreign investors caused the collapse of the industrial efforts. Montes (1987) saw the burst of non-traditional exports during the 1970s as triggering a form of "Dutch disease". The enclave nature of the export sector combined with overvaluation, capital flight and foreign debt meant that the growth during the 1970s was unsustainable.

Based on my fieldwork in the Philippines, I believe that the problems with the import substitution then export approach were more complex than either extreme. The seeds of the problem were laid in the way in which the import substitution-export promotion debate was handled and ended in the early 1970s. The two polarized views on import substitution reflected much the same debate as was taking place in the Latin American countries. Issues from efficiency to dependency were being debated there as well as in the Philippines (see Hirschman 1968). A main difference, however, became the either/or nature of the Philippines debate. The imposition of martial law and the actions by the Government to support export promotion meant that import substitution was considered "wrong" and export promotion "right" in 1972.

The polarization, in essence, precluded building any complementarity into the industrial system. While countries like Korea and Brazil were successful in building on the import substitution systems, their success was based on

developing strategies which allowed and encouraged movement of the import substituting industries toward a world market. One strategy was not simply replaced by the other, but both became part of an overall world oriented strategy.

By making statements which clearly rejected any positive contribution which the import substitution industries could make to industrialization, the import substitution programs such as tariffs became more political than industrial. The Government did not attempt to put in place either incentives or penalties aimed at deterring inefficiencies in the industries. The Government simply allowed the industries to reap the benefits without having to perform. As one Philippine policy analyst indicated to me, the tariffs and restrictions became a way of ensuring profits without performance.

Once import substitution was placed on a solely political basis, then its continuation became more politicized. Not only was there a strong lobby to continue the protection but government policy became a way of concentrating economic benefits in the hands of Marcos supporters, the so called crony capitalists. The import incentive system exercised under martial law took uncertainty out of the system and resulted in the emergence of a new "super elite" industrial class (Crouch 1985).

Despite having supported many of these activities in the 1970s, US AID in an internal report in 1988 indicated that the

result of these policies was to shift the locus of profitability from the market to Malacang Palace. Entrepreneurial energy was no longer focused on decreased cost and increased quality but on gaining exclusive privileges. As Montes (1988) contends the import substitution policies became a method for creating and protecting private monopolies.

The other half of the equation--export promotion--also developed biases. The drive for exports did not attempt to build on the domestic market either as a source for exporting or for inputs. The export promotion approach was aimed at labour intensive exports usually of the assembly variety. Broad (1988) contends that this bias towards sectors such as garments and electronics was based on over optimistic assumptions by the World Bank regarding the growth of world trade. The Bank promoted them as the wave of the future which should be the foundation for development.

This foundation, however, proved to be the entire extent of the export sectors. As Alburo (1987) points out, the concentration in two or three product groups meant that the influence of export firms on the manufacturing sector was relatively shallow. These products were not only exclusively for export markets but they also demanded high levels of imported inputs and had few linkages to the domestic economy.

By the end of the 1970s, all of these problems were magnified by a series of balance of payments crises. The growth rate of manufacturing dropped between 1980 and 1983

reaching -10.58% in 1984. The manufacturing employment index shared a decline in jobs--for every 100 employed in January 1981, 22 had dropped out by August 1985 (Ofreneo and Habana 1987). Shrinking domestic markets, increased costs of production (particularly in servicing debt) and dismantling of the protection system (one condition of the World Bank SAL) forced more decreases in industrial production. The industrial sector had become a lag on the economy not a contributing positive factor.

The businessmen who were outside of the Marcos elite group were hardest hit by the adjustment and therefore became more vocal against the Government after 1983 (Crouch 1985). This group had the least ability to adjust to the crisis. During the 1970s, many of these firms limited their activities to not become too profitable for fear of attracting "acquisition" by a Marcos backed firm. As a result, they were not in a sound position to adjust to the crisis and many turned instead to capital flight as a way of securing their position.

b) State Participation in Industrialization

The direct participation of the state in manufacturing within the Philippines was kept very limited by most developing country standards. Even in areas where Government monopolies were set up, such as sugar and coconut marketing, they were run by private firms. The Philippine Government instead opted to provide support to the industrial process

through activities such as infrastructure and financial intermediation.

Infrastructure provision was the most important element in the 1960s to mid 1970s. During this period, a majority of the capital outlay by the national government went toward conventional infrastructure--roads, bridges, schools, etc (UP 1984). Investments were also being made in export processing zones (EPZs) by the late 1960s which were to support the export orientation during this period. While these EPZs were supposed to become self-supporting, most did not reach their optimum capacity and as a result did not produce the returns expected (Ofreneo and Habana 1987).

Whether this provision of infrastructure had a positive or negative impact on the economy is impossible to tell in terms of output. Presumably the infrastructure aided the industrialization process at least around the Manila region. What is obvious is that the rapid increase in funds going to infrastructure development contributed to the substantial government deficits which began to develop in the late 1960s. Government construction quadrupled between the 1966-70 period and 1971-75. At the same time, the gap between investment and savings was widening from a surplus position to a substantial deficit by 1975 (UP 1984). External borrowing was relied on increasingly to fund this growing gap (Manasan 1988).

The government approach to capital outlays began to shift by the mid 1970s away from traditional infrastructure towards

more construction oriented projects. While these projects were intended to stimulate employment and other spin-off benefits, a University of the Philippines group of experts contend that few benefits resulted (UP 1984). Instead, the funds were increasingly used to build buildings for government bureaucracies, medical centres, official residences and the Central Bank mint. The group argued that these contributed little to the overall industrial sphere but substantially to the foreign debt.

More important than the question of whether government supported infrastructure and construction contributed or detracted from the economy was the issue of how much government backed debt was being generated by the private sector. A primary role which the government took during the 1970s was as financial intermediary--both directly and indirectly.

Montes (1988) described the strategy during the 1970s not as an export promotion phase but as a transition from import substitution to a debt driven economy. From 1972 on, the government increasingly attempted to solve balance of payments problems, deficits and investment shortfalls by using commercial bank financing. The sudden increase in private international funds after the oil crisis of 1973 allowed this strategy to move into high gear. Foreign debt increased from US\$2b in 1970 to US\$24.3b in 1983.

The problem with this increase in foreign borrowing was not necessarily the level of funding but the pattern of end use of

the borrowing. By relative standards, the Philippines debt/GNP ratio in the early 1980s was not out of line with most developing countries. In fact, it compared favourably with other Asian countries such as Korea, Malaysia and Indonesia (World Bank Debt Tables 1985). The problem was the increasing investment/savings gap and the government guaranteed debt.

The investment savings gap continued to grow throughout the 1970s, moving from 1.3% of GNP in 1974 to a high of almost 6% by 1976 (Montes 1987). These high levels of investment were funded increasingly by government guaranteed foreign debt. Much of this debt was channelled through a series of government financial institutions (GFIs) such as the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB). In fact, the share of Central Bank credit going to these two GFIs rose from 30% in 1971-75 to 45% by 1981. The foreign creditors preferred this type of guarantee arrangement where it had recourse to the firm and the government institution. The government saw these institutions as a way to target credit to "dynamic" portions of the economy.

This idea of targeting financial resources was a critical one for success in some other countries in the region. By totally controlling the distribution and creation of credit and foreign exchange, Korea was able to effectively target borrowers to meet government industrial priorities. The group of industrialists (chaebols) who tended to receive these funds

were then able to undertake large scale industrial projects in selected sectors (Ruggie 1983).

These publicly backed loans met with problems in the Philippine context, however. As seen with the trade incentives, the funds from both the GFIs and many commercial banks became increasingly directed toward groups and activities which were not productive. As one official of the Asset Privatization Trust (APT) explained to me, the projects funded were not always selected based on sound economic, rate of return analysis. Many times, the running of the business was of only minor concern to the borrower. The profits were made at the time of investment not through the operation of the enterprise. This meant that many of the non-performing assets of the DBP and PNB which were transferred to the APT for disposal, may never become productive.

These biases in both the GFI operation and many of the large private Philippine banks who also favoured select groups of companies, resulted in obvious distortions at the firm level. The loans given were primarily large scale for capital intensive projects. Smaller firms were crowded out of the credit scene even though their activities showed higher levels of efficiency and productivity. In particular, small and medium enterprises suffered from the increasingly closed credit system (Tecson et al. 1988).

Another feature of the financial intermediation also set the stage for problems from 1980 and on. The Philippine banks

tended toward short term lending which meant that the firms then had to use short term funds to cover long term assets, making them vulnerable to interest rate increases. While not necessarily a problem, in the case of the Philippines, many banks were not strong enough to withstand the interest rate jumps. Firms were also highly levered as many companies traded their equity for easily obtainable debt.

The shocks of the late 1970s began to unravel this pattern of financial intermediation. Many of the large, unproductive enterprises which were funded through the GFIs began experiencing problems with the increase in oil prices, decrease in markets and increase in interest rates on the world front. The Government began taking on larger deficits between 1980 and 1985 which were aimed at keeping its GFIs functioning. While the private firms were defaulting, the GFIs continued to meet their obligations to foreign lenders via Central Bank credits. By 1986, 58.2% of PNB assets and 87.0% of those held by DBP were considered "non-performing" (Montes 1987). In 1983, the acceptance of the IMF program targets put controls on the level of credits generated by the Central Bank. As Montes contends, this narrowed the spectrum of private sector firms who had access to credit even further. To meet the targets, only the government and its private sector group were able to receive the resources.

As part of the World Bank SAL in 1980, a series of financial reforms were undertaken which had a negative impact on the

industrial sector as a whole. Interest rate ceilings were lifted. Laws were passed that allowed banks with a certain level of capital to expand their activities to functions such as equity investment. The intention was to increase the economies of scale in the banking sector and allow more coordinated, "universal services". The impact of these latter reforms was to increase the concentration of the banking system into fewer hands (Bello et al 1982). Higher intermediation costs combined with higher real interest rates caused a severe impact on industries by 1985 as firms could no longer obtain working capital or service debts.

c) Technological Change and Technical Skills

Like most developing countries, the Philippines has obtained most of its technology from abroad. Little emphasis has been placed either by Government or firms on developing its own technology. In fact, the Philippines has one of the lowest research and development expenditures in the region at 0.19% of GNP in 1982 (World Bank data). This lack of priority on developing Philippine technology has meant that technology has come from a combination of direct foreign investment (DFI), licensing and capital imports.

The Philippines since independence from the US in the 1940s has maintained a regulated but open approach to DFI. The Omnibus Investment Code while controlling ownership levels in key industries has not acted as a major deterrent to DFI

(World Bank internal assessment). Not surprisingly, the levels of investment increased sharply after the imposition of martial law in 1972. The actions against foreign investors which were proposed by the courts in the early 1970s were never implemented. The investors saw the return to a stable environment as a positive sign. As a result, real annual investment between 1973 and 1980 was double that of the 1968 to 1972 period according to the Board of Investment.

How much this DFI has contributed to the technological buildup within the country is impossible to say. Some of the sectors which have had higher concentrations of DFI such as chemicals, food, and basic metal products are relatively capital and technology intensive. Presumably in these sectors, the technology would have been imported and adapted to the local factor mix. The resulting technology might have been more advanced than the technology which was obtained through the purchase of capital equipment only. Few studies have been undertaken on the contribution which DFI has made to technological change, however. From my interviews with Philippine firms, it would appear that the other two sources of technology transfers played a greater role.

Technology transfers through licensing or other agreements with foreign suppliers are also regulated. These regulations do not appear to have limited the extent of licenses only its character. The Technology Transfer Board (TTB) was established in 1978 to regulate agreements. The purpose was to

try to limit the amount of foreign exchange which was remitted to the licensors in an attempt to help with the balance of payments problems. In essence, the TTB helped firms negotiate with licensors to decrease rates, limit restrictions and obtain flexible terms for the license period.

Based on TTB statistics, the licensing agreements have been used extensively in areas such as electrical appliances, pharmaceuticals, car parts and machinery. The transfers have been primarily in terms of patents, trademarks and know how. A review of the character of many of these sectors reveals that, while technology transfers have occurred, they have remained enclaves within the overall industries.

The licenses for pharmaceutical and car parts in particular have required the purchase of packaged inputs from the parent companies. The pharmaceutical industry within the Philippines, in fact, is little more than a packaging operation. Name brand drugs are imported primarily from the US and the plants in the Philippines put them into packaging for resale to the domestic market. While these transfers may have increased the level of technology, many do not allow any spinoff effects.

One of the most common transfers of technology has been the importation of capital equipment. The development of a domestic capital goods industry was not a priority for the Government until the late 1970s. At that point, the Government began to place more emphasis on domestically

produced goods as a way to decrease foreign exchange needs. In late 1979, the Government proposed the establishment of eleven projects ranging from copper and aluminum smelters to integrated steel plants. Funding for the projects was not forthcoming. The projects did not receive the backing of the World Bank and most foreign investors were lukewarm (Bello et al 1982). Trying to undertake such massive programs in the late 1970s and early 1980s when the economy was on a downturn effectively negated any chance of implementation.

As a result, imported capital goods have been a primary source of technology for industries. The import regulations have remained fairly open with regards to importing capital goods. This was reflected in the share of capital goods in gross domestic investment which averaged about 23% throughout the 1970s--comparable to Korea and slightly less than Malaysia (World Bank data).

Whether the Philippine firms have been able to effectively adapt this equipment to suit local needs is a critical question. Pack (1987) in an analysis of the Philippine textile industry determined that many of the plants with the newest technology were not the most productive or efficient of those he studied. In fact, some plants with 1950s technology exhibited the highest productivity. These firms not only understood the technology but even supplied machine shops with drawings and specifications to produce spare parts on a continuing basis. The newest technology was underutilized

because technical staff did not attempt to or could not adapt the equipment and production organization to increase efficiency.

This problem with upgrading or adapting technology is seen in other sectors also. A study of the metal working, food processing and garments sectors showed that most technology for small and medium enterprises came from simply purchasing equipment and little technical skills were available to adapt the equipment (Tecson et al 1988). "Experience" was the most important basis for changes or adaptations. While this might work with simple technology, the firms were having increasing difficulty as the technology became more sophisticated.

The question of adequate levels of technical skills in the labour force in the Philippines is a difficult one to tackle. The Philippines has one of the highest levels of secondary education enrolment--just slightly below the levels of Hong Kong and Singapore (World Bank data). This high level of education has been consistent for more than 20 years meaning that the population as a whole is well trained.

Despite these levels of education, signs exist that there are limited technical skills. A number of plant officials indicated to me that while graduates had the skills, they were not taught how to apply them in a practical setting. A lack of formal on-the-job-training meant that large portions of the skilled workforce were learning by trial and error. A technical education school indicated that this was a major

problem. Educational programs as a whole were not responsive to job markets nor were they flexible enough to change with changes in the economy. This meant that technical schools had an increasing burden to provide practical training at a time when they were being faced by decreased resources, outdated equipment and increased demand from students.

Whether these explanations provide the principal reasons for the technical problems or only a partial one, they do highlight the need for assistance to help workers increase technical skills and students learn to apply the skills they have to a job setting. While the current government has begun to turn its attention to these problems, the initial programs will only provide very limited solutions.

Conclusions

The focus here has been to examine why, despite its potential, the Philippines has not been able to capitalize on the opportunities presented in the 1960s and 1970s. While gains were made in terms of growth of manufactures, structural changes within industries and the production of exports, by the late 1970s, the industrial sector had become a lag on the economy--something which has continued into the 1980s.

The problem does not lie in the extreme character of any of the policies per se of the Philippine Government. Throughout this period, it consistently took a strategic approach, selecting and adopting moderate policies towards trade,

foreign investment and state interventions. The problems arose with the manner in which these policies were implemented.

While attempting to follow an import substitution, then export approach, which was so successful in other countries such as Korea and Brazil, the Philippines was never able to build in a complementarity between the two policies. Import substitution and export promotion operated as two separate approaches with little or no interchange or linkages between the two. The result was an import substitution policy which became increasingly politicized. Benefits were mainly bestowed based on connections with the government not efficiency in operation.

The export promotion side also experienced problems in terms of export concentration. By making no attempt to tie into the domestic market and by targeting large scale, labour intensive industries, the non-traditional export sectors became increasingly concentrated in three products--garments, electronics and handicrafts. As well, the majority of non-traditional exports had few links to the economy and high import dependence.

The state did not take a large direct role in industries as seen in countries like India which followed a mixed ownership approach. In fact, the state had one of the lowest ownership records of the developing countries. It did, however, use financial intermediation as a tool for industrialization. It

was here that many of the financial problems of the industrial sector began. Throughout the 1970s, the Government guaranteed debt for private firms expanded at an increasing rate. It also began to use GFIs as a vehicle to target credit within the economy. This targeting was supposed to build and strengthen the industrial class as seen in the case of Korea with the chaebols. Unfortunately in the Philippines, the increasing use of non-economic factors became important for the extension of credit. No performance criteria were attached to the credit. As the financial crisis began to hit in 1980, the amount of credit available to non-favoured companies decreased dramatically and the foreign debt obligations of the government increased as the GFIs faced bad debts from the "crony" capitalists.

Productivity, the ability to adapt technology and the technically skilled workforce have also proven to be a problem. The technological change necessary to make gains in many industries has not been easily attained due to inappropriate uses of equipment, inability to obtain spare parts, or inappropriate production technologies. The result is seen in many industries which have high costs and low efficiency when compared to other countries.

It may appear that a large degree of the blame for the industrial sector problems have been laid on the biases of the government towards certain groups or individuals. In fact, the principle of supporting certain groups within the

Philippines has been around since the Spanish colonization period. What former President Marcos did was to establish systems which reinforced and nurtured biases towards certain groups. The agreement on this point is quite striking within both the literature and the interviews I have conducted. Where agreement does not exist is whether this rent seeking behaviour is so entrenched that it is still a dominant factor within the industrial sector even under President Aquino. As will be explained in the next chapter, CIDA's response to this question is one critical area which separates it from other donors in the Philippines.

IV. BUILDING A CASE

When CIDA's first mission arrived in the Philippines in September 1986, the country was still in the throes of an economic crisis begun during the Marcos regime. Since 1983, the economy had been facing negative growth rates (-5.3% in 1984 and -3.95% in 1985) and decreasing capacity utilization and production in industries. Debt had steadily climbed, reaching US\$26.3b by mid 1986 and demanding 45% of foreign exchange revenues for servicing principal and interest. Unemployment had reached 25% by 1986 and real per capita income had declined to 1975 levels.

The problems facing the Aquino government were twofold: how to reverse these trends in the short run; and how to broaden the base of the recovery to make it sustainable in the long run. The "Policy Agenda For People-Powered Development" laid out a strategy of how the Government hoped to accomplish this. The emphasis was placed on expanding purchasing power in the rural areas through increased employment generation, improved productivity, and land reform. Part of this effort was an industrial strategy which focused on building rural based, small scale enterprises with the intention that they supply both export and domestic markets.

Inherent in the policy was a series of initiatives which became the foundation of the Aquino economic plan released in December 1986. The emphasis was clearly shifted to the private sector as the vehicle for overcoming economic

obstacles. The Government would privatize many of its own holdings along with the non-performing assets held by the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB). The industrial sector was targeted to increase production by 52% over a five year period. Foreign investment would be promoted through changes to the Omnibus Investment Code. The initial industrial focus would be on generating exports in the short run to help with the foreign exchange problems. The generation of jobs in depressed industrial sectors also became a priority with emphasis placed on small scale enterprises and labour intensive activities.

Government policies were also supposed to change in a number of areas. Trade liberalization was to be undertaken to remove quantitative restrictions and lower tariff rates. Government programs aimed at assisting the industrial sector in areas such as export finance, marketing and technical assistance would be broadened to allow better access. Government services would also be decentralized to allow rural areas to have direct access to programs and approvals. Conservative monetary and fiscal policies would be followed in line with the requirements of the World Bank Structural Adjustment Loan (SAL). Direct public investment would be severely limited.

To undertake this programming, the Government recognized the need to increase the levels of aid as a means to obtain additional resources. To reach the projected 6.5% growth rates over five years, Government estimates placed the

resource gap between US\$6 billion and US\$8 billion. The Government felt that aid would make an important contribution to this since private funding was negligible and the terms of the aid were concessional, decreasing the resource costs to the economy.

Problems with relying on aid were also quite apparent, however. During the Marcos period, an increasing gap had grown between the Official Development Assistance (ODA) commitments and the actual disbursements. By 1986, of the total ODA committed for disbursal, only 68.4% was actually disbursed (Makati Business Club 1987). The delays in ODA disbursement were attributed to a number of factors:

- * inadequacy of local counterpart funds which were required even for grants;
- * delays in fulfilment of policy changes required as conditions of concessional loans such as those from the World Bank; and
- * the complexity of procedures and the skills needed to disburse funds.

These delays meant that a number of government revenue targets could not be met.

The other problem from the Government's point of view was to target aid to the areas which were most critical for its purposes. Unlike former President Marcos who closely aligned himself to certain aid organizations such as the World Bank and US Agency for International Development (AID), President Aquino wanted to exercise a more independent approach to aid. While willing to cooperate, the Government also lobbied aid organizations to change the form of transfers to allow greater

independence in setting its own agenda. When CIDA announced its program in 1986, the Aquino Government had a clear idea of how it wanted the funds transferred--through unconditional balance of payments (BOP) support. This route would obviously provide the most flexibility and leverage in terms of use of funds.

Many of the other donors within the Philippines had moved from project support to balance of payments support, at least temporarily. All of them had undertaken these programs with conditions, however. The World Bank had a US\$300 million Economic Recovery Loan which called for reforms in taxes, trade liberalization and public financial institutions. US AID had extended a US\$300 million loan in 1986 for budgetary support but with conditions which included privatization of public corporations, dismantling of price regulations and adoption of a more market oriented exchange rate.

CIDA was no more willing than any other donors to provide unconditional support. Unlike the World Bank and US AID programs, however, the CIDA conditions could not focus on macroeconomic policy requirements. The relatively small amount of aid being expended by CIDA meant that Canada would have little leverage for policy changes--unlike the Bank and US AID.

While CIDA was willing to supply some balance of payments support, the aid took the form of commodities programs which were implemented almost immediately. While not conditional on

policy changes, the BOP support was conditional on the purchase of Canadian goods. These programs supplied fertilizers, paper and vaccines to the Government on a grant basis. The paper was to be used for making educational materials; the vaccines as part of a Government immunization program. The fertilizers were sold to local farmers and the pesos generated were placed into a counterpart fund which would provide funds for specific projects agreed upon by the Philippine Government and Canada.¹

The Bilateral desk staff, particularly in the Philippines felt that it was necessary to provide more than just commodity aid, however. While CIDA management saw commodity aid as a simple way to transfer funds, the line staff felt that it was also a way for increasing the chances of having the funds benefit a select group of people. By also undertaking projects aimed at reaching the poorest people and attempting to broaden the basis of participation in the economy, the staff felt that a better chance existed to impact the system and possibly even accomplish reforms which the Government would be unable to implement.

The CIDA agenda was not macroeconomic but political and social. When the Minister of External Affairs announced the CIDA program to the Philippines the goal was made quite clear-

¹ These commodities programs continue to be a primary part of the aid programming, representing 50% of the funds which will be transferred to the Philippines.

-to support what was viewed as the democratization process taking place within the Philippines. The denial of aid to former President Marcos was a clear sign that politically Canada did not want to aid the oligopolistic structure developed under martial law. The extension of funds to President Aquino was on the condition that political, economic and social change take place within the country. The Bilateral staff felt the only way to accomplish these objectives was through a portion of the program being aimed at projects targeted to specific groups.

The Process

The priorities of the Bilateral staff were important given the administrative structure which had evolved in CIDA since the early 1980s. The changes taking place within developing countries, Canada and the donor community had placed the CIDA program in a state of flux.² The increasing diversity of problems at the developing country level meant that a rigid approach to programming would no longer work for CIDA. For CIDA to have any chance at successful programming meant that it had to become more flexible.

To increase its flexibility, CIDA reorganized its administrative structure into a series of country specific Bilateral desks. These desks were given responsibility for negotiating country program priorities. The focus on

² For a full discussion of these issues see Chapter 2.

developing a series of individual, tailored programs based on recipient country needs meant that the Bilateral staff had to be given a high degree of discretion in program formulation. Decision making had to be decentralized, technical expertise had to be easily tapped and information at the country level had to be quickly generated and synthesized.

To accomplish this, the Bilateral desks were staffed by generalists whose job it was to produce the projects. The technical expertise was provided by sectoral specialists from the Professional Services Branch. In effect, a matrix organization was set up where Bilateral officers and sectoral specialists were to jointly develop programs to be implemented in a given country. The two groups were to find mutually agreed upon programs and solutions at the country level and design programs based on this.

By the early 1980s, establishing matrix type set-ups had become a common response to uncertainty and rapidly changing conditions faced by an organization--both public and private. According to Davis and Lawrence (1977), by setting up parallel operations in a matrix setting--one focused on sectoral or functional issues and one on delivering a product--an organization could better deal with changes for three reasons. First, a number of organizational tasks could be undertaken simultaneously. Second, much more information could be processed. Third, the organization had the ability to quickly deploy an individual with the exact skills needed for the job.

This organizational arrangement resulted in two characteristics of program formulation within CIDA. First, since the individual Bilateral desks had a high degree of discretion over how programs were shaped, the CIDA operation basically became, by the mid 1980s, a series of individual programs with separate agendas. In fact, programming was increasingly ad hoc within the agency.³ This allowed a large degree of freedom in developing programs.

Second, the strength of the Professional Services Group over sectoral planning slowly increased despite the small number of staff. With an increasing administrative workload, Bilateral officers relinquished more of their sectoral program responsibility to the technical specialists who basically developed the programs. This shift of responsibility to the professional is typical in what Robbins (1983) calls the adhocracy. Since decisions are based on a democratic process as opposed to strict hierarchy, the influence on decisions becomes increasingly based on expertise not positions of authority. This means that the power of the specialist/professional increases.

Increasing reliance on technicians within aid agencies for programming is not uncommon. Ascher (1983) describes how in an attempt to decrease uncertainty within the World Bank greater power was transferred to those staff members who could

³ This was a feature which was strongly criticized by the CIDA Task Force on Canada's ODA (1986).

extract information from the environment and provide some coherence to the planning process. The generalist managers were in a poor position to overrule the specialists who were responding to both the Bank priorities and a set of professional standards. Those best able to deal with uncertainty were usually not those in the most senior positions but those with the most concrete skills.

It was within this organizational context that the CIDA industrial sector programming in the Philippines began. Chosen by the Bilateral group as one of the sectors of primary focus for the project oriented operations, the Industrial Services Section (ISS) began the process of determining what the most critical problems facing the industrial sector were and which of a whole spectrum of issues should be dealt with by CIDA's program. While theoretically doing the programming on behalf of the Bilateral desk, the ISS was in fact in control of defining the issues and developing an approach to the industrial sector.

The approach taken was typical of most donors. Troops of Canadian experts were dispatched to the field to assess the situation, talk to a variety of key people within the Philippines and come to some conclusions about what should be done. The approach was based on a strong methodology which attempted to combine inputs from a number of different sources and establish an objective assessment of issues and, above all, a rational approach to programming.

This reliance by professionals on making programming as "rational" and objective as possible has been an increasing pattern within donor agencies. Rondinelli (1982) contends that attempts to deal with changing development issues has triggered an increasing interest in rational planning. As strategies became more complex, the success of the projects and programs became less certain. Donor agencies turned increasingly toward more detailed and systematic planning of programs. Not only did the role of professionals increase, but the need to have foreign technical advisors and objective assessments increased.

This trend was clearly seen in both the relations between the Bilateral staff and the technical staff, and in the extreme emphasis placed by the technical staff on following a strict methodology. A detailed, multi-stage process was initiated which aimed at systematic assessment of the needs of the Philippines and the possibilities for CIDA's response.

The foundation of the ISS assessment was the need to do an independent analysis of the issues, outside of the Government of the Philippines. While the Government of the Philippines had clearly laid out a program for interventions in the industrial field, CIDA's ISS and Bilateral staff saw this as only one input into the programming process. The Government priorities and focus were not automatically accepted as the basis from which CIDA should build its program.

While wanting to support the Government efforts, the staff did not want to be confined by these parameters for a number of reasons which they indicated in internal discussions.

First, meeting CIDA objectives was an important part of any Bilateral programming exercise. The emphasis within CIDA on issues such as poverty alleviation, women in development and environment had to be an integral part of the program formulation. While the Philippine Government put some emphasis these issues, none were high priorities for action.

Second, under the new CIDA Strategy report, a number of areas were not available for funding including infrastructure, large scale industrial rehabilitation projects and equity capital funds. All of these, however, were priority areas for the Philippine Government. While considering them initially, the ISS group eventually dismissed them as possibilities since these programs would not receive approval within CIDA.

Third, some concern existed within the Bilateral desk about whether the Government of the Philippines would be able to expand access to the development process. Entrenched interests within the country and the Government bureaucracy provided major obstacles to implementing Philippine Government policy, particularly in areas such as decentralization. By working outside of the confines of simply supporting the Government, the CIDA staff thought they could play a role in formulating an alternative decision making process.

Two other reasons were just as important for not simply accepting the Government of the Philippines priorities for CIDA industrial involvement. First, the ISS had a clear framework or theory of enterprise development (the formalization of which is found in the **Enterprise Development Issues Paper**) within which the program in the Philippines would have to fit.⁴ In many cases, the plans of the Government fit within this framework. For example, the reliance on private sector development and the support role of the government in providing selective interventions to impact the efficiencies of the firm were both supported by the ISS approach. However, the technical group felt that only through an independent analysis could the issues in the Philippines be tested against this theoretical framework to determine the approach that should be taken toward industrial problems and the type of projects which should be implemented to impact on these issues.

Second, since 1980, CIDA moved away from "government to government" negotiations as the basis for their Bilateral program. While previously, all programming had been undertaken in cooperation with the government of the host country, now programs were being developed which were outside of this process. CIDA staff either dealt directly with private groups within a country or designated Canadian NGOs or

⁴ The theoretical approach which underlies this document is indicated in Chapter 2.

private firms to assist with the programming and implementation. The industrial programs was targeted to private firms within the Philippines, and therefore, the assumption was made that the Government should not be the determinant of the programs.⁵

The ISS missions were guided by a strict methodology which aimed at combining input from a number of different sources and keeping the selection of interventions as rational as possible. Interviews in the Philippines would provide the CIDA team with a basic understanding of the industrial process in the Philippines--where the key issues were, who the key players were, and which sectors had potential.

In fact, the interview process ⁶ produced a wide spectrum of opinions about the problems facing the industrial sector. Some of the problems were clear cut, others were plagued by conflicting opinions and evidence. Issues from privatization of non-performing assets to land reform had taken on importance in the quickly changing industrial sphere. All raised more questions than they answered.

⁵ While taking a different form, this tactic of lessening responsibility of the recipient government for project generation was seen in other donors since the 1970s. Tendler (1975) notes that taking over the manufacture of projects was one way for donors to decrease the uncertainty of the environment from which it must get its inputs.

⁶ The interview process referred to here took place over a period of a year starting with a mission in September 1986 and ending with another mission in November 1987. The primary focus is on the information gleaned from the latter time period since gains were being made in the industrial sector by this point.

Would privatization simply transfer ownership or would it result in productive industries? Could the rural banking system be revitalized to give support to rural industries? Will the consumption led growth change to investment led to sustain the economy? Will foreign investors come back in or continue to take a wait and see attitude? Will the purchasing power in the rural areas be raised through land reform and other actions enough to change the prospects for the most depressed areas?

The breadth of issues which were important in both the long and short term presented a whole range of options for the CIDA team in terms of areas for possible programming. What was needed was a way to organize the issues presented during the interviews and formulate a structured approach to CIDA's modern sector programming.

The methodology stated that the issues would be identified and then analyzed based on a number of different inputs. This sifting process was to draw on the CIDA program priorities stated in the CIDA Strategy, the stated plan and goals of the Government of the Philippines, an assessment of Canadian private sector capabilities in terms of program delivery and the activities of other donors. From this, the framework for the program should emerge.

While all these factors were supposed to have an influence, the application of the method proved impossible without some way of organizing the issues and prioritizing them. Each of

these inputs focused on a different portion of the picture. While the rationalist approach raised many questions, it produced little insight into a solution for CIDA to follow. The emerging picture was far too complex.

Attempts by technicians at increasing the planning procedures and tools to deal with a complex and uncertain development situation rarely produce the answer or even decrease the questions. According to Strachan (1978) the usual results are merely increased number of technical advisors, increased cost and a large amount of time expended.

In reality, the ISS team had to make a "leap of faith" in determining the approach to be taken to the modern sector. The issue (although never stated as such) was how to do this. The result was based on the "theory" which the ISS followed in terms of analyzing industrial issues.⁷ This theory--specifically a structuralist approach--defined how two critical debates would be resolved: about small scale

⁷ This theory was embodied in a document entitled **Enterprise Development Issues Paper** which was a report done for CIDA's President's Committee. The document was really the first attempt within CIDA to define its role in industrial development--outside of the "mutual interest" rationale used for the INC programs. However, the document was never officially adopted. The President's Committee saw the scope of some of the recommendations put forward as being too broad a mandate for the ISS to undertake. Support for the analysis did not appear to be a problem--in fact, the document reflected much of the thinking within the organization. The issue of acceptance revolved around territorial disputes within CIDA and the changing role of the professional within the organization.

enterprises (and rent seeking behaviour); and about structural adjustment with equity.

The Assumptions

a) Scale - Is it Important in the Philippines?

Whether CIDA should be targeting its program by size of enterprise became an important point during the issues identification stage.⁸ The first two ISS missions assumed that the interventions in the industrial sector would be aimed at small and medium enterprises (SMEs). This was based on a combination of factors.

First, the interviews in the field indicated that the most dynamic groups during the crises in the Philippines in the early 1980s were the SMEs. They were able to adapt more quickly to changes in the market and were able to overcome obstacles such as lack of credit. An Asian Development Bank study confirmed that a high proportion of the SMEs were more efficient than the larger scale enterprises (Hiemenz and Bruch 1983).

Second, the CIDA Industrial Services Section clearly placed an emphasis on SMEs as a way to increase employment and equity within a country. The reasoning behind this was based on

⁸ The issue of dividing the debate by sector or type of firm was not dealt with directly by the team. The chief CIDA technician felt that a much broader approach was necessary to ensure that the "methodological process" was not biased. In fact, this unwillingness to narrow the focus of investigation caused continual problems throughout the process. Some of these are mentioned in Chapter 5.

literature developed during the 1970s and early 1980s. During the 1970s, the issue of scale of enterprises became important with the increased interest in integrating equity issues into industrial programming. International Labour Office (ILO) missions led by Dudley Sears in the early 1970s to Sri Lanka and Columbia began to formulate the argument.

The Kenya mission report (ILO 1972) clearly recognized the importance of the "informal sector" as a productive sector within the economy began. A number of studies were completed on the importance of small and medium scale enterprises in generating employment and distributing gains from growth (i.e. Anderson 1982). The SMEs were seen as a way to promote industrial development and equity. Many donors, including CIDA, moved to support these enterprises which many times had few other sources of support available.

Since 1980, CIDA ISS has become one of the leading advocates within the donor community of SME development, organizing conferences and exchanging information on SME related issues. The emphasis made sense within CIDA's context. The foundation of the ISS **Enterprise Development Issues Paper** was support to SMEs as the most dynamic sectors within the economy. CIDA's official policies stressed the need to help microenterprises and small scale enterprises as a way to increase income and employment.

Some of the recent literature has reoriented the discussion away from size of enterprise, however, to focus on the issue

of efficiency. Little (1987) contends that while SMES may generate employment, they are not the most efficient users of either capital or labour and are not inherently more labour intensive than larger scale enterprises. His conclusion is that the emphasis on size should be secondary and the basis for developing programs should be on trying to get markets to function properly.

Within the ISS team, discussions focused on whether the programs should be targeted by size of enterprise or by some measure of efficiency. It soon became clear that the question of scale of enterprise went beyond the issue of whether or not they generate employment or were more or less efficient. The debate was closely tied to the structure of Philippine industry.

The Philippines has a skewed industrial structure with a large number of cottage and small firms at one extreme and a large number of large firms at the other. Few firms are in the "middle". The resulting industrial structure produced what the Harvard Institute for International Development team called one of the most concentrated industrial sectors in the world (HIID 1987). While this skewed distribution is not a problem **per se** (as evidenced in Korea), it has developed into a problem in the Philippines in terms of interactions within the market.

As discussed in Chapter 3, years of biases in policies have produced a system which does not provide equal access to all

industrial players. Government policies, while aiming at a spectrum of firms, have resulted in only a few firms receiving benefits. As the biases became perpetuated, the resulting structure was one of large firms with a high level of sophistication and market access and small firms with limited skills and access to credit or other supports.⁹ This distribution would not have been so detrimental if the large firms had been forced to be more productive in return for the incentives.

As opportunities developed in the market or as Government policies were put into place, the same group of firms moved in to capitalize on the situation. Many times the movement into sectors was more a search for a quick profit than a commitment for the long term investment and development of the sector. The use and understanding of Government programs became a critical part of doing business. If a firm was outside of this group, the ability to identify opportunities and capitalize on them was limited. Even if a firm could take advantage of them, it faced an added problem--becoming too successful and being taken over by the larger firms.¹⁰

⁹ This was clear from the interviews which I have conducted in the Philippines on seven subsectors. Evidence of this can also be seen in interviews and recent reports on the SMEs including HIID (1987) and Tecson et al (1988).

¹⁰ These phenomena have even been documented in internal US AID and World Bank documents.

The CIDA ISS team debated whether or not these biases had changed during the crisis period after 1983. Part of the argument for changed behaviour was based on the World Bank analysis of the industrial sector done in 1987. During this period, the Bank determined that the policy changes taken since 1980 in terms of tariff reform, import restrictions, interest rates, exchange rates, indirect tax system and privatization of public enterprises had resulted in a fundamental transformation of the policy environment (internal World Bank documents). According to one discussion with a World Bank economist, the prices were no longer an issue within the Philippines.

The conclusion from Bank studies was that the biases within the system were eliminated with the result that the industrial sector had shifted from one dominated by rent seeking behaviour (where a small number of firms used up resources offered by government programs and in the marketplace just to capture the profits) to one which was more open and neutral. The underlying assumption was that prices were the most important dictate of behaviour and that industrial policy equalled trade and macroeconomic policy.

The outward orientation theory described in Chapter 2 acts as the basis for the Bank approach. If certain externally oriented policy changes are made, then the environment for investment and industrialization will improve sufficiently to encourage firms to expand. In essence, by changing policies,

industrialization will take hold on its own. Firms which can not adjust and take advantage of the opportunities will die. In this scenario, efficiency not size dictates success or failure.

Many of the interviews held within the Philippines focused on trying to see whether this change in approach had actually taken place or whether rent seeking behaviour was so entrenched in the system that more than policy changes were needed. The interviews made it quite clear that the issue was not whether large scale enterprises were bad or good. Agreement existed on the fact the large enterprises provided a majority of the exports and employment in the manufacturing sector and would make the greatest short run contribution for stabilizing the economy.

The question became one of built-in biases and whether these biases would prevent the "dynamic efficiency" which would be important for longer run gains to be made. The consensus from those interviewed was that more was needed than changes to policy framework. The basis of industrial development--with its foundation on individualistic behaviour, getting incentives in exchange for favours or using favoured access as a way to expand--was not changed and little evidence existed that it would without specific interventions. The interviews with Government, policy analysts and some industry officials all indicated that the small scale enterprises were forced so

far outside the system, that breaking into it, even with targeted programs, would be extremely difficult.

Unlike the Bank, the CIDA ISS team concluded that rent seeking behaviour had not ended with the policy changes and still acted as a critical obstacle to effective development. While changes on the policy level had theoretically allowed larger access to opportunities, the bifurcation of the industrial sector and its overwhelming enclave nature meant that old patterns were not fundamentally changed. Smaller firms could not graduate to exporting, had little or no access to formal credit and were not able to use Government programs under current circumstances.

Just as the Bank assessment had conformed to its theoretical foundation of "getting the prices right" so had the CIDA analysis built on the more structuralist approach outlined in the ISS strategy paper. A number of implicit assumptions were evident throughout the process. First, all policy shifts result in a change in the distribution of income and impact different groups differently. Thus, while the policy changes should allow better access to the system, CIDA did not accept the approach that a firm should either adjust or die. A middle ground should exist to help firms who have been previously discriminated against.

Second, markets are not perfectly competitive and as a result prices respond to costs not just demand. The adjustment period in the early 1980s increased costs dramatically

for some firms in terms of imported inputs and cost of credit. Those facing the least flexible markets were the small scale enterprises outside the system.

Third, the concern for equity as well as growth was inherent in both CIDA's policy approach as well as the ISS industrial approach. While growth was considered necessary, it was not sufficient for sustained industrial development. The distortions within the system were considered to be so great that changes for the better at the sectoral or macroeconomic level would not automatically result from improvements in efficiency. Changes in equity also had to take place to ensure that gains made in the industrial sector were more than short term.

The decision by the CIDA ISS team that rent seeking had not ended and that the CIDA program should target assistance through the small and medium scale enterprises became the basis for the assessment of issues.

b) Structural Adjustment with Equity

The CIDA Strategy document **Sharing Our Future** states that CIDA's aid should aim at

helping economies cope with debt and reduced export earnings and to improve economic management (while being sensitive to the economic and social effects of this adjustment) (CIDA 1987).

What this idea of combining structural adjustment with equity means in practical terms is being debated within CIDA with

different interpretations coming from different sections of the organization.

The relationship between efficiency and equity has been a matter of controversy for a number of decades. The development theories of the 1960s focused on generating efficiency in industrial sectors as a vehicle for economic development with the underlying assumption that income distribution would trickle down through the system. The recognition in the late 1960s and 1970s that "trickle down" was either a myth or exceedingly slow, triggered much of the literature and policies aimed at redistribution and basic needs. Whether the two objectives were considered complementary or trade-offs dictated how a country would undertake its programming. Sri Lanka opted for focusing on equity, Korea for growth.¹¹

The severe shocks of the late 1970s and the deepening of the crisis situation in many countries temporarily suspended this debate. Countries were having to undertake adjustment programs, many times aimed purely at changes to the macro-economic environment. Early World Bank Structural Adjustment Lending (SALs) stressed these macro changes, with the assumption that everyone would be better off within countries once adjustment had taken place. The trade reforms, privatization of public enterprises, reforms of the financial system, etc.

¹¹ Cline (1975) contains a survey of the distribution literature throughout the 1950s to 1970s which provides background on this debate.

would allow biases within the system to dissipate with the long term result of greater efficiency, growth and therefore improved income distribution.

The early reviews of the SALs and International Monetary Fund (IMF) programs by the Bank and IMF downplayed the negative impact of stabilization programs on income distribution. Johnson and Salop (1980) acknowledged that stabilization programs had distributional impacts but how severe and negative these were depended upon how the domestic policies were implemented. An internal World Bank review of SALs in 1986 indicated that the quest for efficiency and the improvement in equity were complementary policies in the long run. While the adjustment programs appeared to have lowered incomes in the short run, this impact would be less important once the adjustment was complete.

As experience with the programs was gained, the social impact of adjustment became an increasing issue, however. Were the poor bearing the greatest burden of adjustment? UNICEF in 1987 published a report which concluded that the poor were being hurt and focused on how the impact of adjustment could be lessened on the poorest groups (Cornia et al 1987). A number of Bank sponsored reports also began to emphasize that many of the poor had suffered severe problems as a result of adjustment (Huang and Nicholas 1987). Even the International Monetary Fund, in 1988, acknowledged for the

first time that adjustment might exact a greater toll on the poorest.

The recent SALs now require an analysis of social impacts along with inclusion of a program element designed to temper the short run impacts of adjustment on the poor. An internal review of poverty and adjustment within the Bank divided the poor into three groups: the "new poor" who were direct victims of adjustment such as civil servants who had lost their jobs; the low income and vulnerable groups who were hardest hit by changes in food subsidies, etc. such as the landless, elderly, etc; and extreme poor who were not that affected by adjustment since they were too marginalized from the system. For the first group, the Bank suggested that emergency public works projects or similar programs be funded as a vehicle for transitory assistance. For the low income and extreme poor, the suggestion was that the recipient governments should focus their support activities on improving the efficiency of government operations to the poor and retargeting programs to ensure that the poor are the true beneficiaries.

A confidential 1988 World Bank report on the poor in the Philippines argued along similar lines. The report stressed that 60% of the population were below the poverty line, with real wages dropping constantly since 1960. Among the ASEAN countries, the Philippines has the highest level of poverty. The report also indicated that the situation had worsened in the last ten years. The causes for the increasing poverty

were seen to be unequal asset ownership, rapid population growth and lack of jobs. The solutions which are suggested by the Bank centre on three areas: spend more on roads, irrigation and electrification; collect taxes more equitably; and reduce the regression of social services which benefit upper income groups.

This emphasis by the World Bank on combining adjustment with equity was supported by CIDA's President and Policy Branch. In internal documents CIDA has indicated that the two programs being undertaken by the Bank--helping countries to incorporate improvements in the efficiency of social expenditures and to develop cost effective compensatory programs--were moving in the right direction. Little distinction was made between the definition of the Bank program and the goal which the CIDA Strategy document outlined for structural adjustment with equity. In fact, the documents indicated that increased coordination should be pursued to ensure that the reforms were being implemented by the Bank and supported by CIDA programs.

The Asia Branch, ISS and Bilateral staff interpreted the issue of structural adjustment with equity in a different way in the Philippine context, however. While agreeing that the issue of distribution is important to deal with, they felt that the Bank approach focused too heavily on the issue of price again. The two prong Bank approach was seen as attempting to improve the efficiency of services to the poor while assuming that the poorest would automatically benefit. Jobs

are generated and better incomes follow. Health and education programs are retargeted and access to the programs improves for the poorest groups.

The CIDA staff analysis in the Philippines instead focused on a different definition of adjustment with equity. The need for macroeconomic stability, greater efficiency in the use of funds, and better targeting of programs were not disputed. The mission team members, however, also felt that other obstacles within the system had to be dealt with directly if gains were to be made in the Philippines in terms of income. These obstacles included market malfunctions such as local monopolies, lack of regional markets and rent seeking behaviour; bottlenecks in the system such as lack of inputs; institutional weaknesses such as failure of rural credit; and the need to target particular groups such as youth and women.

In fact, the basic conclusion of the team was that improved distribution was the key to sustained growth not vice versa. The biases within the industrial sector in terms of income and access were considered so strong that gains could not be made on a sustained basis without changes in the social and economic structure. The question became, how could this be accomplished?

Issues

These two assumptions meant that the focus of the CIDA industrial program would have to go beyond just providing

support to any portion of the industrial sector. Instead, the support was to be aimed at making changes in the industrial structure. The conclusion of the analysis was that without changes to the social and economic structure, the obstacles to industrial development could not be overcome.

In a sense, this assessment conformed to the ideals of the Government's "people powered development" and yet was removed from the confines of both the desires of the Philippines government and CIDA organizational pressures. While both of these acted as inputs, the emphasis was clearly placed on coming up with an "objective" analysis of what was and should be happening in the Philippine industrial sector. The conclusion did not call for support to social revolution but for using these assumptions as the filter through which the industrial problems were to be viewed.

Working from these two fundamental assumptions about the Philippines, the modern sector team focused on four issue areas which it thought should form the foundation of any CIDA program in the industrial sector. The issues were important in terms of what was identified and how the issue was defined. In some cases, the CIDA assessment took a particular slant. These four issues were intended to become the proximate aims or strategies for the industrial interventions.

a) Export Development

One of the most critical issues facing the Philippine Government in 1986 was how to service the debt and still allow gains to be made in terms of growth. The Government clearly targeted the expansion of exports as the primary method of bridging the foreign exchange gap. The emphasis since the mid-1970s had been on the expansion of non-traditional exports. As mentioned previously, gains had been made in this area during the 1970s. However, only a limited number of non-traditional sectors had evolved--namely electronics, garments and handicrafts.

The team agreed that to tackle the immediate balance of payments problems in the short run would require a focus on assisting existing non-traditional exporters. The acceptance of an export oriented strategy was not even questioned from a theoretical point of view. Instead, the questions revolved around issues such as which type of exporter should be the focus of any programming? Should foreign operations or domestic firms be assisted? How important is the issue of rehabilitation of production capacity? What kind of long term export development should be targeted?

The interviews in the Philippines revealed two types of non-traditional exporters. The first were the large sectors such as garments and electronics. These two sectors produced the majority of non-traditional exports (over US\$2b in 1987). On the whole, these sectors were considered world competitors,

able to expand their markets with increasing world demand in the short run. Their expansion capabilities were clear from their performance in both 1986 and 1987 when production increased rapidly. The firms in these sectors tended to be large scale, import a high proportion of inputs and export a vast majority of their output.

The second group of non-traditional exporters were found in sectors such as furniture, leather and toys. Here the firms were small scale with relatively modest export levels. The expansion capabilities of the firms interviewed in these sectors appeared to be severely limited in the short run. A number of problems centred around the availability of inputs, working capital, technology and marketing information. For example, the footwear and leather industry as a whole increased export sales by 70% in 1987. However, further gains were severely limited by the lack of premium hides and skins and imported chemicals for the tanning facilities. Toy exports were booming but the identification of markets and the competition within these markets were already slowing the pace of possible production in 1987.

A number of factors clearly led to the CIDA analysis focusing on the second group of exporters. First, the larger scale garments and electronics were facing limited problems and expressed little interest in having assistance from donor sources. They felt that they would be able to expand if the economy continued to turn around and no limits were placed on

their ability to import the inputs into the production process. The second group of small scale exporters were facing a range of problems for which outside assistance could help and would be accepted.

Second, the larger scale firms were many times joint ventures or licensed agreements between Philippine firms and US or Japanese firms. While an integral part of the CIDA program would be promoting foreign investment in general--the aim was to support Canadian firms--not US, European or Japanese--in selling technology, joint ventures and other arrangements.

Third, the high proportion of imported inputs in the large scale production processes were repeatedly cited in the interviews as a problem. One industrial expert estimated that the elasticity to import was greater than one and therefore as these export industries expanded, their net impact on foreign exchange was negative. The need to decrease import dependence was repeatedly mentioned as one of the most critical barriers to overcoming long term balance of payments stability.

The traditional cycle of import dependence appeared to have been exacerbated by the recent contractions within the economy. Many of the producers providing key products had been forced out of the market by higher competition, high debt costs, inability to adapt to a changing economic climate or lack of access to inputs. This meant that the domestically supplied goods had decreased.

The ISS team concluded that in the long term, a nontraditional export base had to be promoted which did not rely as much on a high import content. Problems in accomplishing this were apparent not just in terms of the lack of domestic products which were suitable for providing inputs but also the attitude towards sourcing locally. The industrial sector focus on "importing first" was a major perception problem. This attitude has increased over the years as larger firms in particular have complained about the appropriateness and quality of domestic inputs. They would rather import than source locally.

While this perception may prove to be a longer term problem, the desire to limit foreign exchange exposure may act as an impetus to use local products in the short run. If local products are used they would have to prove their worth in terms of timing, quality control and flexibility in order to maintain their market share.

In terms of rehabilitation and modernization of existing facilities, the dramatic increase in investment between 1986 and 1988 had been aimed at making minor changes to production in order to increase capacity utilization. The investment was not aimed at buying new equipment or build new plants. The interviews confirmed that the funds were being directed toward increasing production quickly to take advantage of the increased consumer demand. The need clearly existed, however, for the investment to shift to modernizing existing production

capacity on a much broader scale. Many of the firms currently were using old technology and production process which would have to be upgraded if the firms were to remain competitive.

Three broad program strategies were drawn from this analysis. First, existing exporting firms had to be used as a vehicle to expand immediate production. SMEs were targeted for programs such as credit provision, marketing assistance and technology transfers to help them expand their production in the short run. Strategies would have to be developed, however, for diversifying the export base of the SMEs through the promotion of non-traditional exports.

Second, programs designed to decrease import dependence were critical for longer term viability of the economy. The domestic producers could be helped with improving quality control, evaluations of locally produced goods and their markets, and support programs such as credit and technology provision. Third, in some cases, SMEs needed upgrading of existing production capabilities. Here a spectrum of support could be provided such as evaluation of the production process, product development, technology adaptation and inputs into the production process.

b) Local Market Development

The foundation of the Philippine Government plans was the decentralization of development out to rural areas. The

depressed economic situation in many parts of the country had severely limited employment opportunities and purchasing power in the rural settings. This was partly the result of the role the regional economies had played traditionally. They were seen as suppliers of raw materials and purchasers of finished goods. The manufacturing took place within the cities (primarily Metro Manila) or within foreign markets. This arrangement exacerbated the employment situation in the regions where few non-agricultural jobs existed. The result was migration to urban areas and severely constrained purchasing power at the local level.

The CIDA Bilateral team in the field felt strongly that one of the critical ways of increasing the chances for democratization of the Philippines was through a system of decentralized development. They strongly supported the Government intention to decentralize operations to allow approvals and support systems to move to the field. They also supported efforts to build small local enterprises. In fact, one of the interim programs undertaken by CIDA in 1986 was the Negros Rehabilitation and Development Fund (NRDF). Aimed at supporting both economic and social change in Negros, the project gave funds to non-governmental organizations to undertake agroindustry and microenterprise projects.

The success of this decentralization strategy in the long run will hinge on the same factors which are currently blocking it. Increased purchasing power, provision of appropriate

infrastructure and investment will all contribute to a decentralized and strong local market system. These same factors, however, could prove to be the obstacles to the strategy.

The CIDA team looked at two long run approaches to this problem of building an industrial base in rural areas. One approach was to focus on agro-industry which builds on the strength of the regions--their raw materials. Some industries exist in this area already such as food processing. These existing industries face a wide range of problems. For example, many of the food processing plants have primitive equipment, limited resources and inadequate storage facilities. The plants which are the most successful are those which are large scale and able to reach economies of scale.

The potential for agroindustry appears to be high. The raw materials, labour and interest exist in the regions. The problems with implementation break down into two groups, however. The first relates to capital and technology. The collapse of the rural banking system and the traditional biases against rural areas means that working and investment capital are extremely limited in the rural setting. As well, the shortage of technology means that any enterprise would have to obtain technology either from abroad or domestically (i.e. Manila).

The second problem is in some ways more difficult to overcome. While the pool of unskilled workers is large in the rural areas, many times the workers need training before they can make a transition to any type of non-farm employment. For example in Negros, the sugar workers who were displaced by the collapse in sugar prices found it extremely difficult to make a switch to employment in manufacturing. The hacienda system which operated on the plantations reinforced feudal work patterns and skill limitations, thereby decreasing the ability to function outside of the plantation setting.

The other focus for new engines of growth at the decentralized level is building other types of industries which are needed by the local market. This could include sectors such as hand tool industries (which currently do not exist), metal working, parts for electrical appliances or furniture. A wide spectrum of people--from a representative of the European Chamber of Commerce to the Governor of Negros--mentioned the need to develop basic support industries in the regions. The feeling was that without some support system, the decentralization could never take place.

The purpose of this approach would be to bring local producers into the mainstream of the economy. To build local markets requires not only increasing access to the domestic economy for locally produced goods but also gaining access to end user markets. The local producers must be able to build

strong local expertise and competitive products while securing a recognized market share.

The biases in the financial sector have continued despite high liquidity. Only a limited number of clients are given credit through formal credit channels (some estimates place the number of firms with access to commercial funds at approximately 100). The clients who can receive credit are those with good credit ratings and substantial collateral. Without real estate, in particular, for collateral, entrepreneurs are constrained in their development and rely on family and informal credit markets.

This was recently confirmed by an Asian Development Bank study of small and medium enterprises in food processing, garments and metalworking (Tecson et al. 1988). The SMEs rarely had access to long term funding and used short term loans to finance investment. An executive of a local Philippine Bank noted that anyone needing less than 500,000 Pesos in working capital had to resort to usurers or their families.

The conclusion of the team was that the possibilities of promoting local market development were contingent on developing new techniques for rural industrialization and credit. Training and technical assistance were needed to support entrepreneurship within SMES. Extension credit programs were needed to reach firms currently relying on the informal credit market. Short term support in terms of

technology, training, production assistance and marketing was needed to help SMEs move into areas currently not serviced within the domestic market.

c) Linkage Development

The economic system within the Philippines has few linkages between the local and export markets, between sectors and between firms. This lack of linkages has prevented self-sustaining development and increased import dependence, non-graduation of industries and enclave developments.

There is no doubt that building linkages within the economy is critical for supporting both export and local market development. The inability of most firms to move within the system--either shifting sectors or graduating to higher levels of production or exports--is one reason why sustainability of the recovery is hard to achieve in the short run. If linkages were more extensive, not only would imports decrease but the economy could become more dynamic.

The lack of linkages has its roots in the policies described in Chapter 3. The trade policies pursued by the Marcos Government caused distortions in both the domestic industries and the export industries. The domestic were many times protected to the point of not having any reason for improving efficiency or attempting to move to the export sphere. The export industries, on the other hand, were kept as enclave

developments with few attempts made to source locally or build connections with the domestic market.

As a result, graduation within the system from a local market to regional to international is rare. Few firms have followed the import substitution then export path. Trying to take a small or medium sized firm who currently deals with the local market to the international market would require extensive support systems. Changes would have to be made in terms of quality control, marketing, training, distribution channels and scale of production.

The question arose of how to deal with this linkage problem. One approach was advocated by those who thought that changes to the trade policy would remove many of these biases. The World Bank program documents indicated that because of the enclave character of the industrial sector, the liberalization which was undertaken between 1983 and 1987 initially impacted only a small segment of the firms. In the long term, with the turn around in domestic demand and upgraded technology, the Bank projected that the domestic industries would begin to become more efficient and build linkages.

The CIDA team decided that this analysis might be true in the very long term, but some interventions would have to be undertaken at the firm level to overcome obstacles in the shorter run. One of the effects of the liberalization to date was to open the market to higher competition suddenly. Some of the business organizations complained that this

liberalization was killing their sector. While part of these complaints were undoubtedly motivated by a desire not to have to compete, some evidence was also presented that indicated that smaller producers who were supplying to the domestic market had been eliminated with the increased competition. They were unable to cope with foreign products at the same time as they were having to restructure loans or find new suppliers for goods.

One area to promote linkages which was mentioned repeatedly was subcontracting. Programs have been established by the Ministry of Trade and Industry, private sector groups as well as non-profit organizations to match large, medium and small scale firms. Large firms are interested in subcontracting currently since it allows them to increase production in the short run, taking advantage of increased market demand while decreasing their risk. The individuals or small firms are undertaking the subcontracted work since it gives them easy access and work without extensive marketing systems.

While subcontracting is a partial solution to linkages, in the short run, the CIDA team felt that the long run dictated an expansion of this relationship. If markets stabilized, the larger firms would expand their capacity and decrease the demand for subcontracted work. If small firms relied only on subcontracted arrangements, demand for their services might fluctuate considerably. In either case, the linkages were temporary.

What needed to be built were longer term relationships between firms. The ability to effectively achieve this was dependent upon small and medium enterprises moving beyond subcontracting to the development of parts or semi-finished goods which sold to an end-user market. Decreasing import dependence feeds into this idea along with building local market capabilities. The local producers must be able to build strong local expertise and competitive products while securing a recognized market share. The CIDA ISS group thought that parts of this process could be supported through CIDA programs.

d) Employment and Livelihood

The fourth issue identified by CIDA for action was a more direct approach to dealing with employment generation and increasing income. While the previous issues tried to focus on ensuring that more opportunities existed within the system for employment, access, etc., the team felt that the issue of deteriorating incomes should also be focused on separately.

The World Bank internal report indicated the extent to which incomes within the Philippines had deteriorated since the early 1970s. Even with growth rates of over 5% per year, the Bank projected that the income levels within the Philippines would not be restored before the turn of the century. The fact that a majority of the population lived below the poverty

line meant that most of these individuals were very difficult to reach by programs.

While the other three issues dealt with bringing about changes in the production relationships within the country, they also concentrated on the more formal production units. Targeting small scale enterprises was seen as a way to assist in eliminating some of the barriers to their active participation in the industrial sector and presumably increase the number of jobs generated. It was not necessarily assumed to reach the poorest people.

The need existed to generate employment in the short run and income distribution in the long run. The use of specific targeting for microenterprises and community based activities was seen to accomplish this. A number of the community based projects which were visited indicated the potential for generating income on a community basis. The projects stressed that by providing minimal support facilities, a poor community could begin to produce basic hand made goods (such as toys). The CIDA ISS team decided that a micro/community based component of the program was necessary to more directly attack the issue of livelihood.

Adoption of the Approach

The purpose of the modern sector missions was to assess the economic and industrial situation within the Philippines and develop an "objective" view on the most critical questions

facing industries. The issues identified within this context were: the promotion of non-traditional exports as a way to assist with balance of payments problems; the need to increase domestic production; the fragmentation of the links between firms and sectors; and the need to improve livelihood within the country.

The underlying objective of addressing these issues was the desire to support "growth with equity". The case was made that improved distribution was the key to sustained growth not vice versa. The biases within the industrial sector in terms of income and access were so strong that gains could not be made without changes in the social and economic structure. Generation of foreign exchange earnings through export development, government pump priming, revival of the industrial sector, local and foreign investment in domestic and export production and increased productivity of the agricultural sector were not sufficient to ensure sustained growth in the long run. Equitable distribution of income was essential. By raising purchasing power, the increased domestic demand would provide the basis for sustained and equitable growth.

The findings of the modern sector team were quickly adopted by the Bilateral group not just as the foundation for the industrial program but for the Philippines program as a whole. By saying that distribution was the key to growth and that increased equity was a prerequisite for full recovery of the

economy, the Bilateral group saw that a stronger case could be made for why CIDA programming should not just rely on balance of payments support. While this BOP support would help in the short run, it would not support the longer term objectives of Canada in ensuring sustained recovery and democratization.

In essence, the approach provided a rationale for what the Bilateral staff wanted to support--namely economic and social changes which allowed a sustained and equitable development within the country. Because it provided the rationale and analysis, the modern sector report was expanded into a document on structural adjustment which set out the overall objectives of CIDA in the Philippines. The differences between the CIDA and the World Bank approaches to structural adjustment were clearly outlined as underlying assumptions along with the distribution question.

The adoption by the Bilateral staff of the ISS analysis meant that the country program review (CPR) which had to be completed would build on this distribution/equity theme. While the CPR process began with this approach, changes within CIDA demanded that these issues or goals be reoriented and in some cases totally abandoned. This process of change is addressed in the next chapter along with underlying problems which the ISS approach to industrial development would have faced regardless of organizational changes.

V. REFORMULATING POLICY

When CIDA's Industrial Services Section (ISS) began its issues formulation process in the Philippines in 1986, it was operating within a policy framework and organizational context which had evolved since 1980. As discussed in the previous chapter, both of these elements reinforced an independent role for the ISS in program formulation. Despite its small size within CIDA, the ISS had control over program design at the country level and had developed the theoretical framework for addressing industrial projects.

This environment allowed the ISS to look at the problems facing the Philippines industrial sector from an objective position. The intention was to identify the issues and strategies which should form the foundation of any CIDA industrial programming. Interviews in the Philippines would provide a basic understanding of the industrial process. The wide spectrum of issues which this would generate would then have to be sifted through based on a number of inputs. This sifting process was to draw on the program priorities stated in the CIDA Strategy **Sharing Our Future**, the stated plan and goals of the Government of the Philippines, an assessment of Canadian private sector capabilities in terms of program delivery and the activities of other donors.

In reality the most critical elements in determining the approach to be taken to modern sector development were the information gleaned from the interviews held in the Philip-

piners and the underlying objectives and themes of the ISS approach to industrial development as outlined in the **Enterprise Development Issues Paper**. In a sense, the assessment of issues was removed from the confines of both the desires of the Philippine Government and CIDA organizational pressures. While both of these acted as inputs, the emphasis was clearly placed on independently identifying what was and should be happening in the industrial sector.

The resulting analysis relied heavily on two assumptions about the social and economic order. The first was that rent seeking behaviour was so entrenched in the Philippine industrial structure that policy changes such as trade liberalization would not eliminate it. Attempts by the Government of the Philippines to promote dynamic efficiency could not be successful until the balance of power shifted out of the hands of a small group of industrialists who were able to control programs and markets. The CIDA ISS group felt a way to deal with this was the specific targeting of small and medium enterprises (SMEs) to allow them access to credit, Government programs or even the ability to graduate to exporting.

The second assumption involved equity and the need for social change. The CIDA ISS team analysis was based on the assumption that improved income distribution was the key to sustained growth not vice versa. Not only did this go against the trickle down approach to development but it also meant

that the obstacles within the system which were currently preventing a broader distribution of benefits had to be directly assaulted. The economic rationale for this was based on arguments about depressed purchasing power and underutilized capacity in labour; the social rationale on issues of empowerment and changing access to the decision making process.

Compared to the three largest donors in the Philippines--the World Bank, US Agency for International Development (US AID) and Japan--these assumptions were a rather radical assessment of the need for social and economic change.¹ The assessment did not differ a great deal from the "people power" objectives of the Aquino Government. The willingness of the Bilateral group to accept the ISS analysis was based on their agreement with these basic premises. On a political level, some CIDA staff were concerned that President Aquino may not be able to overcome many of the obstacles which blocked implementation of social change within the country. They saw her moving towards the right, supporting the oligopolistic tendencies and ownership patterns. The need then was to support the efforts

¹ The World Bank and US AID have been the dominant forces within the Philippine donor community for decades and feel that they set the pace for other donors to follow. The recent attempts to put in place a mini-Marshall Plan within the Philippines was started by the US and developed by Japan and the World Bank. The intention was to increase aid from all donors and increase control by the Bank over where this aid was targeted within the country.

of broadening the base of power even if this meant working outside of the Government programs.

Attacking the roots of these two problems--rent seeking behaviour and need for improved equity--became the ultimate goals of the modern sector program. The proximate goals or solutions to these problems were decidedly more mainstream in appearance². Four proximate objectives were identified as the basis for CIDA's industrial programming:

- * to promote development and diversification of non-traditional exports, reduce import dependence of manufactured exports and rehabilitate existing production capacity of selected sectors.
- * to promote decentralized local market development through development of new engines of growth in rural areas and better private sector access to competitively priced credit and finance.
- * to promote intrasectoral linkages between small, medium and large firms, develop backward and forward linkages and expand market and distribution linkages.
- * to broaden access to income and employment through micro and small scale enterprise development and community based schemes.

These four objectives represented a fair assessment of the problems which needed to be addressed in the Philippine industrial sector. The feedback which the team received through both formal and informal channels confirmed this. Formal meetings were held with four groups--academics, government

² The terms proximate and ultimate goals are used here to distinguish between the two levels of CIDA objectives which are used in the programming process. The proximate goals are the direct objectives of a project which have a direct effect on production, efficiency, etc. The ultimate goals are what is expected to come out of the outputs or proximate goals.

representatives, industry and bankers--within the Philippines to obtain their impression of the analysis and how they would prioritize actions for CIDA.

The general response was positive although each group focused on a particular aspect as the most important. For the academics the issue of building linkages was seen as the only way to break the current patterns of production. For the Government the promotion of domestic markets and the generation of foreign exchange through exports were seen as important. Industry representatives (mainly from small and medium enterprises and industries outside of the "system") felt that credit and assistance with marketing to graduate to exports were their most critical problems. Finally, the bankers saw the generation of foreign exchange and the decrease in import dependence as the most critical for the economy in the long term since this would stave off balance of payments problems.

Where this analysis led the CIDA team in terms of actual programs to be undertaken was a more difficult question. While the proximate objectives appeared straightforward, to successfully meet the ultimate objectives would take quite dramatic changes to the current industrial system. It would also take a narrowing of focus given the limited funding which would be available for enterprise development from CIDA (less than Cdn\$30 million). Should the program focus on a limited number of sectors? Or concentrate geographically? Should one

objective be given priority and all the programming aimed at that? Should the assessment be based on where the most impact can be made? Or where the greatest need was as agreed to by Canada and the Philippines?

How this narrowing took place became an important question. While the ISS group laid out a methodology to attack this, changes within CIDA put a hold on any further programming. The impact of the CIDA policy debate during 1986 and 1987 was beginning to be felt in terms of the priorities for programming. The relationships within CIDA were changing, including a fundamental change in the role of the professional services groups. The translation of the issues analysis into program design was impacted by a series of policy and organizational changes which fundamentally changed the programming possibilities -- forcing parts of the analysis to be dropped while others to be taken up.

Changing the Policy Framework

a) Striving for Equity - Is This An Appropriate Goal?

When CIDA moved to a country focus in the early 1980s, the Bilateral desks became responsible for developing the country program priorities. These were developed based on discussions with the recipient country and an assessment by the Bilateral staff of where the most useful interventions could take place. The desk staff had a high degree of discretion over how the program was shaped and implemented. Since there was little or

no policy guidance within CIDA,³ the desks basically decided their own agendas and worked within the CIDA approval process to make them operational.

Within this framework, the different sector programs were also undertaken fairly independently. The Industrial Services Section would be asked by the Bilateral desk to develop a sector program. The ISS did an assessment of industrial issues within a country which was then discussed with the Bilateral desk. The Bilateral goals for the overall program were considered an input into the industrial program but were not a determinant of the program. While ISS had to take into account the Bilateral concerns, the issues and technical considerations basically drove the sectoral programming. The primary constraint was the need to conform to operational guidelines such as the tied aid requirements or budgetary restrictions.

The CIDA operation basically became a series of Bilateral desks that generated programming with the assistance of the professional services group. Each desk had a high degree of flexibility in terms of what they could tackle and there was little or no attempt at coordination between them. This

³ The official policy document which guided CIDA activities until 1987 was the 1975 Strategy outlined in Chapter 2. The 1975 approach was basically overtaken by events in the late 1970s, and as a result CIDA operated from the mid 1970s to mid 1980s without a formal or relevant policy orientation. The result was an ad hoc approach, which became more ad hoc with the move to Bilateral desks.

system was changed with the CIDA policy review which took place between 1986 and 1988.⁴ While a high degree of discretion continued, the relationships within the system changed quickly.

The CIDA policy document **Sharing Our Future** (SOF) outlined specific new priorities for CIDA programming which revolved around issues such as human resource development, poverty alleviation, women in development and environmental concerns (CIDA 1987). The Parliamentary process which generated the basics of this report stressed the need for CIDA to have a coherent approach to programming--something which had not been the case for more than a decade. The themes of the SOF were to become the underlying basis for all CIDA programming.

To ensure that the new priorities would become an integral part of the Bilateral programming, relationships within CIDA were reversed. The Bilateral desks were now required to produce country program reviews (CPRs) which specifically integrated the CIDA themes into the approach being taken within a particular country. While the application could vary by country, the approach had to specify how it was addressing the "cross cutting themes" through its programming. These documents and program funds were subject to approval by the President's Committee.

⁴ The details of the Parliamentary Committees, Government response and CIDA's program document **Sharing Our Future** are outlined in Chapter 2 along with the rationale for their adoption.

As can be expected, much of the initial discussion within the Bilateral desks focused on how to integrate the new priorities while still maintaining the same programs as before. As with most bureaucracies, CIDA Bilateral desks were difficult to reorient towards a new approach. This problem was exacerbated by the inability of anyone within CIDA's policy groups to actually explain what the new focus meant. What exactly was human resource development (HRD) in this context? Was HRD the basis for every project or just one component? Was the emphasis on integration of women into the process as strong as the drive for poverty alleviation? How were these prioritized? Could each desk come up with its own definition as long as it provided a rationale? Answers to these questions from CIDA management were not forthcoming and the Bilateral desks began to formulate their own definitions of CIDA's policy.

The one thing which did become clear from the process was that the relationships within CIDA were changing on two levels. First the relationship between the professional services groups such as ISS and the Bilateral desks were being reversed, with programming placed squarely on the Bilateral staff. The second change was in the relationship between the Bilateral desks and the Branch. The Branch increased its power over the desks and imposed consistent criteria for the CPRs. Each of these changes were critical to the ISS modern sector program and are covered in turn.

The move to set up a matrix type organization within CIDA in the early 1980s was an attempt to develop a flexible response to a changing environment.⁵ By having Bilateral generalists work with sector specific specialists, the intended result was programs which were more responsive to the developing country's needs. The Bilateral desk officers would deal with coordination, overall program framework and delivery of the programs, while the professionals would provide the specific expertise needed to make program and project recommendations. The decision making would be mutual.

As the organizational arrangement evolved, the professional took on more of the actual programming and decision making functions. Since they were able to provide a "rational" approach to programming which appeared to decrease the uncertainty both within CIDA and at the recipient country level, they also gained in power and influence within the organization. Few Bilateral desk officers felt able or had the time to refute the technical assessments and as a result deferred decisions to the professionals.

With the changes in mid 1980s, the clear message to the Bilateral desks from CIDA management was that all programming would have to conform to the approach outlined in the CPR. This meant that the professional services groups such as the

⁵ The factors which contributed to this unstable environment are covered in Chapter 2 while the specifics of the matrix arrangement are explained in Chapter 4.

Industrial Services Section would now have to produce sectoral programming which fit with both the CPR and the overall CIDA themes. Whereas previously, the professional services groups actually did the sectoral programming based on their perception of sectoral needs, now the professionals were only providing technical information on how the sectoral issues could be addressed within the context of the CPR. While the change might appear subtle, in fact, it basically reversed the previous process.⁶

These changes basically halted the ISS program development for the Philippines. The Bilateral desk indicated that before the modern sector interventions could be formulated, the CPR had to be completed. The acceptance by the Bilateral desk of the basic approach being taken to the modern sector, however, initially indicated that the issues would not have to change significantly. The Bilateral desk would simply convert the aims identified by the ISS group into the new framework. This became increasingly difficult, however, after the next set of changes took hold within CIDA.

With the movement of CIDA management towards unifying the CIDA programs, more responsibility was given to the Branches

⁶ CIDA management also began to restructure the Professional Services Group to ensure that this new role was being followed. Technical staff were no longer supposed to be undertaking programming, but were only supposed to be providing advise to the Bilateral desks. Directives to this effect began to be put forward causing a loss of morale within the technical groups.

for ensuring that the new policies were implemented. Asia Branch decided that the best way to implement this was by imposing a set of firm program criteria on each of the Bilateral desks. The criteria set out the program management choices which would have to be consistent across the Asia country desks.

The desire of the Branch to have common CPRs, objectives and policy options was motivated by two factors. The first reason was basically management. The changes happening within CIDA would obviously be easier to manage if each Bilateral desk had to follow specific criteria. The Branch could better follow its mandate of ensuring application of the CIDA policy if it generated some uniform criteria for the desk programs.

The second reason was more important, however. Part of the changes in CIDA organization was decentralization of one-quarter of the staff to the field from Ottawa.⁷ Bilateral program staff were being shifted to the Post in an attempt to speed up the decision making process and the delivery of aid. Once this decentralization took place, the field staff would be able to approve projects and control program administration away from Ottawa. This decentralization meant that if the patterns of independence at the Bilateral desk level

⁷ The decision to decentralize was part of the results of the Government aid review. Decentralization was started almost immediately in 1988. Ironically, this expensive operation was being undertaken at the same time that the Government of Canada cut the aid budget by 25% in 1989.

continued, the Branch would have little control over the field operations and little ability to impose any consistency across the region. The Branch opted instead to consolidate its control over the operations of the desks before they were transferred to the field. The development of common cpr frameworks, goals and policy options meant that each program would have to conform to Asia Branch policy even after the program was operational.

The framework which Asia Branch developed was a combination of the priorities of the CIDA policy document and its own agenda for the Asia region. It was clearly not an issues oriented approach which had been the driving force behind the previous programming of both the Bilateral desks and the ISS. The underlying assumption of the Branch was that the traditional relations between Canada and Asia were changing.⁸ Asian countries no longer wanted or needed traditional development assistance. Canada had to compete for projects in the region. To increase its competitive position CIDA had to build strong working relationships within the region between Canadians and Asians (CIDA, Asia Branch 1988).

The internal documents of the Branch stressed the idea of mutuality and even indicated that in a short time Canada would need Asia more than the reverse. In discussions with Asia Branch staff, the emphasis from the Branch was increasingly

⁸ For a more detailed discussion of the Asia Branch strategy and its development refer to Chapter 2.

focused on what the long run relations with each country would be. Programs had to take into account long term objectives such as trade relations, joint business ventures and institutional linkages. This pattern of programming was seen in the programs for China, Thailand and Indonesia.

Two goals emerged from this analysis which were to form the basis of all bilateral programs within Asia:

- * To strengthen the capacity of key public and private organizations in Asia to develop the managerial and technical expertise to implement policies and programs consistent with national development objectives.
- * To build linkages between Canadian and Asian institutions which will foster sustainable, long term relationships consistent with Asian development objectives and Canada's longer term interests in the Asia-Pacific region. (Asia Branch internal memos)

To accomplish these goals two priorities were set for countries like the Philippines. The first was human resource development (the CIDA overall strategy) which was aimed at institution building, management training and the fostering of linkages between Canadian and Asian businesses, non-governmental organizations and the academic community. The second was industrial programs aimed at providing direct assistance at the policy and program level to technology transfers, joint ventures and industrial development.

How closely the Bilateral desks had to follow these priorities and goals became an increasing issue as the Philippines desk prepared its draft CPR. The group realized that it had to conform to the Branch approach but still wanted

to ensure that the goals of the program continued to address the question of increasing equity within the Philippines. Goals were drafted which added terms like "support to structural adjustment" or "sustainable, equitable and increasingly self-reliant" development to the Branch goals. All of these were rejected by the Branch.

The Branch position was that any goals of the program which addressed issues such as equity were inappropriate. To ensure that the Bilateral program actually addressed the issues such as human resource development, the purpose of the programs could not be "striving for equity" or "changes to the economic structure" of a country but had to be capacity building in institutions or building linkages.

The changed roles between ISS and the Bilateral desks and shift in relationship between the Bilateral desk and the Branch staff impacted the issues oriented approach of the ISS sectoral programming quite dramatically. While the analysis done by the ISS was not refuted, the focus of the program could no longer be on changing the social and economic structure of the industrial sector. Whereas before, the ISS could undertake its structuralist analysis of issues with little interference, now the parameters of what could be addressed were more closely defined by Asia Branch. Issues were no longer important; partnerships were.

What this meant to the ISS group was that the goals of the industrial approach had to change. While equity might be the

ultimate rationale behind what was being done, it could no longer be the driving force. The emphasis of the modern sector program--and the basis on which it would be evaluated--would now have to be on institution building and developing linkages between Canada and the Philippines. The industrial program had a new set of goals which were not issue driven and a new process to follow within the organization.

b) Targeting Institutions versus Groups

One of the foundations of the ISS analysis was the assumption that to have an effective program, CIDA had to somehow reach enterprises which were currently operating outside the mainstream of the Philippine industrial sector. The reasoning relied on the assumption that the skewed character of the Philippines industrial sector meant that the majority of firms (primarily small and medium enterprises) were effectively shut off from credit, export opportunities, technology and access to Government programs. The strategies which were developed by the ISS team aimed at breaking down these barriers by increasing access of these groups to opportunities within the economy.

To do this, the ISS team assumed that specific firms or groups would be targeted for assistance--as is typical of most aid programs. Programming would aim at providing support in areas such as marketing, quality control, access to credit, development of new export areas, support to new domestic

industries, and entrepreneurship development. These support programs would be specifically targeted by sector and firm to support the goals of linkage development, employment generation and improved access.

The Asia Branch directives changed this situation, however. The Branch interpreted the directive from CIDA management to focus on human resource development (HRD) in a narrow way. Strengthening human resources became specifically institutional strengthening--or the process of improving the ability of institutions to make effective use of human and financial resources.⁹ This meant that the primary interventions within Asia Branch had to aim at improving the capacity within the developing country for implementing policies and programs of target institutions.

With this as the goal, the Branch further restricted the program options for the ISS group. Not only were the issues of equity and sustained development no longer appropriate for the industrial program, but the purpose of the program was to build and strengthen institutions. The industrial program now had to target institutions--such as industrial associations, government agencies or non-governmental organizations--not end user groups.

⁹ While Asia Branch did not specifically use this definition, it is inherent in the goals presented in the last section. This definition of institutional development comes from Israel (1987).

This interpretation of the CIDA requirement for a human resource development approach fit with the Branch objectives of building linkages between Canadian and Asian groups. These interventions were seen to promote not only the long term prospects of Canadians in the region but also to support what the Branch saw as a shift in demand at the country level. Canada's comparative advantage lie in areas such as training, technology transfers and assistance with planning. The developmental priority was self-reliance of the region.

The World Bank Task Force on Concessional Flows stressed that one way of developing self-reliant behaviour at the country level was to strengthen the technical assistance and institutional programs of donors. This self-reliance had three dimensions:

to determine knowledge needs that can not adequately be met domestically; to develop the ability to undertake domestic research, problem solving and policy formulation; and to sustain these capacities (Cassen and Associates 1986)

The definition which Asia Branch followed fit with this interpretation. The objective appeared to be improving the ability of institutions to make effective use of human and financial resources. The Task Force saw the possibility of "intellectual leadership" for the institution building coming from the World Bank with other groups--such as bilateral

agencies--executing these programs. This niche was agreed to by Asia Branch and the overall CIDA management.¹⁰

The shift to institutional strengthening presented a whole series of obstacles for the ISS industrial programming in the Philippines. The first problem was CIDA's lack of experience in institutional strengthening. As with most donors, strengthening institutions had been a small part of programming--usually in the context of a broader project. For example, it has been a part of some large scale infrastructure projects where the national highway or port agency needed assistance with improving efficiency or training.

Strengthening or assisting the institution had rarely been the ultimate aim of a program, however. This meant that little experience or lessons had been gained about these projects. In addition, an evaluation of 62 projects by CIDA which contained some institutional strengthening showed a spotty track record. The evaluation indicated that while 60% of the projects had resulted in increased managerial capabilities, over 60% had not enabled the institution to become significantly more self-reliant (CIDA n.d.).

The difficulty of undertaking institutional strengthening projects even within the context of other programming has been reaffirmed by recent studies. Israel (1987) found that the

¹⁰ In fact, one of the motivating factors behind the Government focus on human resource development was the fact that this niche fit with not only the needs in the field but also the roles being advocated within the donor community.

more specific the objectives of the institutional programming were, the higher the rate of success in its implementation. Institutional programs aimed at transferring technology to a particular industry were more effective than those aimed at training workers in the operation of the equipment. The less tangible the goals for the institution, the more likely it would meet with problems in implementation.

This meant that using institutions to improve the marketing skills of small scale enterprises (with this as the objective of the exercise) would have a much higher success rate than trying to use institutional development to increase linkages or domestic production. In fact, pursuing an objective of increasing linkages would set an institutional project into another dilemma which Israel describes as competition surrogates.

Competitive pressures exist both within the institution and from outside which have a positive or negative impact on the efficiency of the institution's operations. If the pressures are not homogeneous then the institution becomes fragmented or falls into the hands of elites (Israel 1987). Pursuing a goal such as increasing linkages would certainly generate conflicting pressures within the Philippines from those who wanted reform and those with a vested interest in the status quo. In fact institutions in the Philippines have been notoriously open to "competitive pressures".

The Philippines is a country of organizations. For example, over 10,000 NGOs operate at the community and national levels. Assessing them becomes extremely difficult since they many times have overlapping purposes and membership. The CIDA NGO program has been plagued by this problem resulting in the fact that programming must be aimed at a number of different NGO groups and coalitions. By trying to satisfy a number of groups, CIDA has still been criticized by both the left and right. The Canadian NGOs feel that some of the Philippine groups are too far right and not supporting social change within the country. The Philippine Government, on the other hand, feels that some of the Canadian support has gone to NGOs who are too far left and are attempting to undermine the government programs.

Knowing which formal groups to support in the Philippines is very difficult since membership and control change quickly. Some of the informal interviews conducted focused on how to ensure that the institutions which are developed or supported are not immediately infiltrated by other groups seeking funds. This has been a chronic problem with other donors and is a variation on the "rent seeking" theme. The Dutch aid program while targeting NGOs ended up supporting the communist movement. The World Bank has been taken in by the industrial elite a number of times in the past when they have put in place programs which have funded capital flight and inefficient industries.

The conclusion of the Israel study along with other studies on institution building is that donor programs must aim at more clearly defining their objectives, making them as specific as possible. Industrial projects have been some of the most successful but their success has been generated by the "hard" services which the institutions are delivering-- i.e. science based technology, production process review, etc (Cassen and Associates 1986). "Soft" services or objectives even in the industrial sector have met with limited success.

Even by defining the objectives of the CIDA modern sector program as the provision of credit, technical assistance or training, the underlying problems with institutional strengthening can not be eliminated, however. Some of the current programs undertaken in the Philippines aimed at small and medium scale enterprises have used existing institutions as delivery agents. The most common programs are intended to supply credit at various stages to SMEs from pre-investment to financing working capital.

An evaluation of these programs by the Asian Development Bank (Tecson et al 1988) indicated that all these programs were begun to reduce the biases in the credit system against SMEs. The conclusion, however, was that only the largest small and medium scale enterprises were impacted by the borrowing. Most of the programs still relied on collateral, gave loans of at least 500,000 Pesos and were concentrated in Manila.

One of the principal reasons for not reaching their target groups was the choice of conduit institutions to deliver the programs. Most programs worked through the existing credit system either using Government financial intermediaries or commercial banks. The same biases operated under these programs as under normal commercial lending. In addition, the requirements of most programs in terms of administration on the part of both the lender and the borrower, prohibited both sides from actively pursuing the funding.

According to internal World Bank reviews, these have been the major reasons why the World Bank Small Medium Industries (SMI IV) program has met with little demand despite changes in the price--ie. spread to banks. Administered by the Industrial Guarantee and Loan Fund (IGLF), the program uses commercial banks as the conduit for loans. Despite increases in the spread, few small and medium industries have expressed interest in the program and few banks are willing to relax their stringent lending requirements.

Non-financial institutions have been slightly more successful in spreading the benefits to small and medium enterprises, although the gains have been limited. The Technology and Livelihood Resource Centre (TLRC) administers credit programs for a number of groups including the Japanese aid program. The programs which aim at SMEs have slightly more liberal lending requirements in terms of collateral and have lower interest rates. Many of its clients are the

"progressive" SMEs which the HIID team said should be targeted for assistance (HIID 1987). While impacting a broader group, the TLRC program rarely approves loans under 1 million pesos. Using groups like the TLRC would be difficult, however, since most are already overextended (Tecson et al 1988).

Programs also exist in areas such as export marketing and technical assistance. Here the current institutions which deliver these programs are plagued by a number of problems: lack of coordination which results in duplication; limited skills of those trying to deliver the programs; and the failure of programs to seek out SMEs. Most programs are used by the same group of companies.

If CIDA used the existing institutions and programs for channelling funds, then programs may be delivered, but some question would arise as to whether the ultimate goals of the program would be achieved--i.e. overcoming the biases within the system. Looking at alternative institutions is not totally the answer either. Many of the institutions which have been assessed by ISS as possible target institutions focus on enterprise development as a livelihood vehicle only--not as a viable economic enterprise. The programs which these institutions deliver are, therefore, aimed at social objectives not at allowing the enterprises to become integrated into the economy. The amount of CIDA funding would probably not be large enough to permanently change the institution's mode of operation.

The insistence of the Branch that the program be based on institutional strengthening, therefore, poses special problems in terms of not only implementation but any hope of undertaking a more reform oriented agenda aimed at enterprise development. The actions of the Asia Branch effectively narrowed the possibilities for the modern sector program.

c) Mechanisms

The changes in CIDA priorities and the interpretation by the Branch effectively eliminated the two assumptions or ultimate goals from expressly being the basis for ISS programming. They also presented problems in terms of implementation of programming within the Philippines context. Some of these obstacles might have been overcome, however, if it were not for the character of the implementation now used by CIDA.

In the early 1980s, CIDA moved toward using "mechanisms" as a way to decrease administrative burden within the agency. Instead of having CIDA staff administer programs on a project by project basis, CIDA put in place program mechanisms which established the parameters of the programs: who was to be targeted, how the program was to be organized, funding levels, etc. The actual implementation was then carried out by an executing agency--such as non-governmental organization, private firm, or government agency--appointed by CIDA with CIDA Bilateral staff as overseers of the process.

This move originally involved the non-governmental organizations (NGOs) in what were to be called "country focus" programs. The administrative burden for CIDA of handling grass roots projects became even more difficult with the start of country specific programming. Bilateral staff members had to have a spectrum of skills to effectively put together and administer a broad range of programming. The administration of some of the more difficult programs--such as grass roots, poverty oriented ones--were transferred to Canadian NGOs as a way of easing the burden and presumably improving the implementation. The use of intermediaries slowly began to expand beyond just NGOs. Private sector firms began to be used as vehicles for administering lines of credit and technical assistance to small scale industries.

The use of mechanisms for all the CIDA Philippines programs became clear early in the process. For ease of administration, the Bilateral group, under the direction of the Asia Branch Vice President, agreed that the entire program would consist of a maximum of 10 mechanisms. CIDA would set up the mechanisms and then take the role of "banker" in their administration. Canadian Executing Agencies (CEAs) would manage the projects.

The industrial sector was assigned one of these mechanisms and instructed that one CEA should be responsible for administering and coordinating all of the enterprise development projects. Unlike the NGO program which had active

Canadian NGOs involved in programming before, the ISS group did not have an identified CEA for its program.

The technical group decided not to deal with the issue of a CEA during the issues formulation process, however. This was partially based on a decision not to involve the CEA in programming before the program was established--to ensure "program integrity". In effect, the methodology of the ISS assessment indicated that the program should first be designed, then a CEA found to fit into that program design.¹¹ Despite the attempt to ignore the importance of the CEA in the program design, the use of a CEA to implement the ISS programs further complicates the ability of the group to address the issues oriented agenda.

The selection of a CEA is critical in the overall implementation plan. Whether any of the issues agenda will be implemented will be determined partly by which organization is selected and what their priorities are. If the CEA disburses the funds through a designated credit program, and is evaluated on the disbursement rate (not on what proportion of the

¹¹ This is roughly what ISS had done on previous projects where the program was formulated and then a CEA brought in to administer. This arrangement constantly faced two problems. The CEA eventually chosen was not committed to the objectives of the program and therefore administered it in a way which was expedient but not in keeping with the spirit of the program. This was the case with the enterprise program in Zaire where the line of credit was used to import trucks not to assist small scale enterprises. The second problem was one of timing. The Thailand program, while it was developed in 1986, was still without a CEA in 1989 and program start will likely not begin before 1991--six years after program identification.

money goes to SMEs "outside" the normal credit system), then it is unlikely that the "ultimate goals" of the program will be considered of primary importance.

CIDA's experience with other CEAs also indicates that they slowly begin to help define the programming--with CIDA's consent. A review of CIDA's operations in 1986 indicated that these intermediaries (both NGOs and private sector) build linkages with the private sector and groups within the developing countries and begin to develop programs which are then submitted to CIDA for integration into the programming framework (CIDA. Task Force on Canada's ODA 1986).

Also, unlike the Canadian NGOs who have a developmental interest in the Philippines and are therefore interested in participating in the CIDA mechanisms, little interest has been expressed within Canada by private sector banks, association or firms (the typical CEAs) on working with small scale enterprises within the Philippines. Finding CEAs who are interested and qualified (i.e. have some experience in the country) has proven to be a critical problem in the implementation of the Thailand program. The two main elements of that program will use a Canadian commercial bank and a Provincial agency as the CEAs. However, selection of both has been a bitter and protracted battle.

The Minister's office under the Mulroney Government now provides ultimate approval of CEAs for implementing projects. If private firms are put forward by the Bilateral desk, then

the process is particularly political with the Minister sometimes "adding to" the list of appropriate candidates. For this reason, the industrial sector has begun to increasingly turn to provincial agencies engaged in business development to act as CEAs--for both developmental as well as political and approval reasons.

The job of administering the program will also be much more difficult with the institutional emphasis. By having to deal with Philippine institutions and a CEA, the implementation process is multilayered. The chain of policy will operate as: CIDA-> Canadian Executing Agency-> Philippine institution-> target group. To effectively have policies sifted through this maze from CIDA to the intended target groups will take "administrative regulations" of sizable proportion. The implementation of this alone would take a large portion of the budget.

The relationships between the Canadian and Philippine institutions have also been an area of great debate. The desire to have a responsive program has pushed the ISS toward trying to find a compromise which would have a CEA for a portion of the program including overall administrative and financial responsibility but a more direct relationship between the Philippine institution and CIDA staff on program design and implementation--particularly with microenterprises. The logistics from an organizational and legal perspective are complex at best.

The pressure for this compromise from the Philippine side is clear. Their contention is that if any programs are to be driven by Philippine concerns, then the funding mechanism must have a formal route for Philippine input. While they support the principles of the ISS approach, they rightly do not see how the approach can be implemented with a Canadian CEA driving all program decisions.

A compromise is possible with decentralization of the Bilateral administration to the field. Part of the process in the case of the Philippines is the transfer of the industrial services specialist to the post. By having field operations, CIDA staff will presumably have current information about what is happening in the industrial sector in the Philippines and will build relationships itself with various groups. This at least will give it a better chance of effectively monitoring the program and will allow staff time to become more involved in the decision making process after program implementation.

Transferring the technical person to the field also has drawbacks, however. The professional services role is primarily one of ensuring that the technical integrity of programming is maintained--that the analysis is sound, the programs well structured and the implementation guidelines clearly specified. The movement of the technical staff to the field has in some ways merged the roles of professional services and bilateral staff. The emphasis is increasingly being shifted from technical mode to delivery mode. Pressure

is being exerted to put together a fast program which can be undertaken immediately (i.e. put all the funds into a credit program administered through large Canadian and Philippine banks). The threat is either that the funds be disbursed or be taken up by someone else.

While the technical staff have operated with too little regard to delivery mode, the possibility exists that the swing may happen too much in the other direction. Numerous studies have documented the pressures which drive program staff such as the need to disburse funds, the career paths, the evaluation mechanisms, and relationships within the organization (Tendler 1975). The ideal situation might be one which tries to combine the technically driven approach with one aware of organizational constraints. The possibilities of this will depend to a certain extent on the individuals involved.

Tradeoffs

The issues identification phase of the modern sector programming was a fairly open process. The ISS team met with many people in the Philippines private and public sectors, discussing issues, receiving feedback and reviewing program objectives. This process paralleled the Bilateral CPR process which also aimed at open discussions, particularly with the Government of the Philippines, in terms of intentions and future programming.

Understanding the underlying assumptions of the ISS process and the basis for its analysis will provide only a partial insight into the final modern sector program implemented over the next five years. The changes over the last year have already placed the program in a state of flux as the principal objectives have been overridden by CIDA organizational changes and the focus of the program has shifted from targeted groups to institutions.

Both of these factors have fundamentally changed the orientation of the programming and its ability to effectively impact the ultimate issues identified in the original analysis. While this does not mean that the eventual programming will have no impact on problems such as improving equity, it does mean that the impact will be muted at best.

From the point of view of ISS programming the question might be asked: were there ways of minimizing these policy changes during the process in terms of their ultimate impact on the modern sector objectives? The answer is yes, but only with tradeoffs.

The driving force of the analysis was the desire to follow what was considered a sound and strict methodology for assessing issues. From 1980 on, the ISS, in effect, set the industrial agenda within CIDA's Bilateral programs. The motivations during the late 1970s and early 1980s for beginning an industrial program within the Bilateral arm of the organization were more driven by developmental and

organizational concerns than by commercial interests.¹² The industrial programs aimed at small and microenterprises had a market within developing countries and had potential for achieving programming which would be successful at the country level.

The independence which was afforded the ISS group, along with other professional groups within CIDA, meant that these developmental and technical concerns would play a much greater role in program formulation. They were allowed a relatively independent path in programming. As long as the ultimate program design took into account the obvious organization constraints such as the need for tied aid, or budgetary restrictions, then it was basically free to present issues as the professionals saw them in the field.

In the case of the Philippines, this approach produced a interesting assessment of what the major obstacles facing the Philippines were and what needed to be done about them. It captured the dichotomies in the Philippines industrial sector, drew support within the Philippines, and provided a first step in the development of a donor program by being transparent in its process and honest about the problems facing the country.

The policy review in the mid 1980s did not negate or disagree with the approach being taken to industrial

¹² See Chapter 2 for a review of the pressures and outcomes.

development. Due to conflicting pressures¹³, it simply ignore critical questions about industrial programming and the role of the private sector in its implementation. Without formally acknowledging the sectoral issues, CIDA avoided political problems but also developed a framework which made dealing with industrial issues more difficult.

While it would have been impossible for the ISS to anticipate the changes in structure and priorities which evolved out of the policy review between 1986 and 1988, even if it had anticipated them, it would have had little leverage to change any of the outcomes. What it did have control over was making its approach more relevant to the organization and organizational change.

It is here where tradeoffs could have been made to lessen the impact of the changes, however. The continued reliance on "issues" to supply the basis for narrowing the programming continued to ignore the organizational context within which the programming was taking place. The ISS team acted as if it were not part of a donor organization, but were formulating an ideal program. While this approach produced what I believe were positive results in the initial issue identification phases (and results which were supported by many groups within the Philippines), it also ignored the realities of implementation.

¹³ See Chapter 2 for details.

Little attempt was made to narrow the focus by sector or region. Factors such as the CIDA priorities and Canadian capabilities in program delivery¹⁴ were talked about but never integrated. The methodology in reality translated into defining issues first and worrying about other inputs such as the plans of the Philippine Government and the CIDA organizational constraints after the programming was decided.

The reluctance to move to the subsector level and begin to specifically analyze, in depth, the problems facing specific industries and firms made the ISS analysis more vulnerable. While receiving general support from various sectors within the Philippines, the ISS group did not develop a coalition or constituency within the Philippines. It did not know what subsectors it wanted to work with, who within those subsectors would be key players, what were the obstacles, etc. This made the enterprise development component of the CIDA program more vulnerable than the other parts of the CIDA program which had specific "clients".

The NGO group, women in development (WID), regional government support and even commodities programs all had specific contacts in the field with which they were developing programs. These negotiations had been established and basic ground rules set for the relationship between CIDA and the

¹⁴ Canadian capabilities refers to both the need for using a CEA which the ISS group knew at the beginning of the programming process and the fact that aid is tied 80% to Canadian goods and services.

Philippine target group. While none of them had set their programming, they had at least begun the process of narrowing. They also had established allies which could be used to temper the headquarters organizational changes. The CIDA NGOs and Women in Development (WID) coordinators were successful in gaining a number of concessions regarding programming parameters because they could identify specific problems these would cause with the program delivery.

Without any definition of specific programming or target groups beyond a general "those outside the system", the ISS group came under increasing pressure to conform to all the directives. The fact that the ISS group had to wait until the CPR and Asia Branch framework were in place was partly a result of its focus on the ultimate aims of the program. No specifics of programming were established which could be used as the basis for arguing against directives or priorities set by Asia Branch.

It has to be recognized, however, that building coalitions within the private sector is more difficult than other groups such as NGOs for a number of reasons. First, the private sector firms, particularly in the Philippines, are very individualistic in approach and obviously geared towards making a profit. While many groups represent business interests, each of these groups has their own agendas which are often very narrow. Building support within these target groups is very difficult.

Second, the structure of the programs aims more at delivering a service such as credit or marketing assistance than at a sector per se. Therefore, selecting specific sectors was not be as important as selecting a region for the program. The regions for operations were approved outside of the ISS control, however, and were ones where programming by other donors has proven to be most difficult. The implementation problems, particularly having to target institutions, increased substantially with the regions chosen.

Third, choosing sectors to assist has to rely at least partially on whether there are Canadian capabilities which can feed into the process. The requirement that 80% of the aid be tied to Canadian goods and services means that Canadian firms (both manufacturing and service sector) are involved in delivery. A program which targets technical assistance to SMEs in the Philippine rattan furniture business may be meeting the ultimate aims of the programs but would have problems in terms of Canadians who could assist in this area.

If the ISS team had moved faster to the programming stage and had incorporated some recognition of CIDA's ongoing organizational constraints, then the current job of developing a program within the Philippines would have been somewhat easier and may have conformed more to the original goals. The decision not to do this, and to stick instead to a more ideal methodology, meant that the ISS program would be open to the pressures for change.

Appropriate Approach for A Donor

A question can also be raised about whether the ultimate goals of the ISS analysis, with its premise of changing the industrial system, were appropriate for a donor organization. The underlying premise of the analysis (supported by the feelings of the Bilateral staff) was that the Government of the Philippines might not be able to break away from the traditional political pressures and implement a reform agenda. While this assessment in some cases is true, I question whether CIDA, as an outside organization, would be any more successful in implementing a reform agenda than the Aquino Government.

Both face internal and external barriers which make reform extremely difficult. They both must contend with the same set of entrenched interests and problems facing implementation in the field. Each has its own set of internal blockages to reform. The Aquino Government faces an inflexible bureaucracy which refuses to change, and pressures from the "elite groups" through channels such as the legislature and lobbyists. CIDA faces problems such as 80% tied aid, the need to channel funds through CEAs and the inexperience of dealing with a new country. Both will have difficulty impacting the current relations within the industrial sector.

Underlying this thinking by CIDA is the desire again to find a rational solution to development problems. Donors have continually searched for the solution which will increase

certainty in developing countries and solve problems for specific groups. Much of the development debate in recent years has been about appropriate models and policies which will provide this certainty. The World Bank, in particular, presents itself as having "found" the solution. CIDA, while differing on the approach, is really no different. It too is solution driven. It too has been forced into continual change by its inability to actual solve development problems.

The assumption that outside professionals can enter a country, do an analysis, and determine the problems is accurate in some cases. The assumption that a donor, however, can then formulate a solution based on this rational assessment which will solve the problems is highly unlikely. Nelson (1985) points out the importance of government taking into account political and administrative obstacles when designing structural reforms.

Donors have not been sensitive enough to these issues--both internal to the organization and within the developing countries--and as a result have failed in many cases at implementing changes. Donors formulate approaches based on a wide range of factors which influence decisions. How these factors come together is covered in the next chapter.

VI. GENERALIZING THE CIDA EXPERIENCE

The process of change which has taken place within CIDA over the last three decades has been driven by a continual need to adapt to an uncertain environment and to find solutions to development problems which allow a chance at successful programming in developing countries. What has pushed CIDA to change its approach has been a recognition that the course being followed was no longer sustainable--i.e. current programs no longer were in demand, events had overrun program relevance or program implementation was effectively blocked.

This recognition of unsustainability triggered a number of policy reviews which reoriented programs. It was not until the late 1970s, however, that industrial programming was considered a viable candidate for direct funding. The switch to viewing industrial involvement as a solution for some developmental problems was a reflection of changes both within the development scene and within CIDA. Industrial programs were seen as a way of adapting to realities in the world, and developing programs for which some demand would exist within developing countries.

The delay in addressing industrial development directly is common to a wide variety of donors. In fact, donors for the most part took a unified approach to direct industrial support until the late 1970s--few of them engaged in it. After this time, many donors began to view industrial interventions from a different perspective in terms of programming. A wide

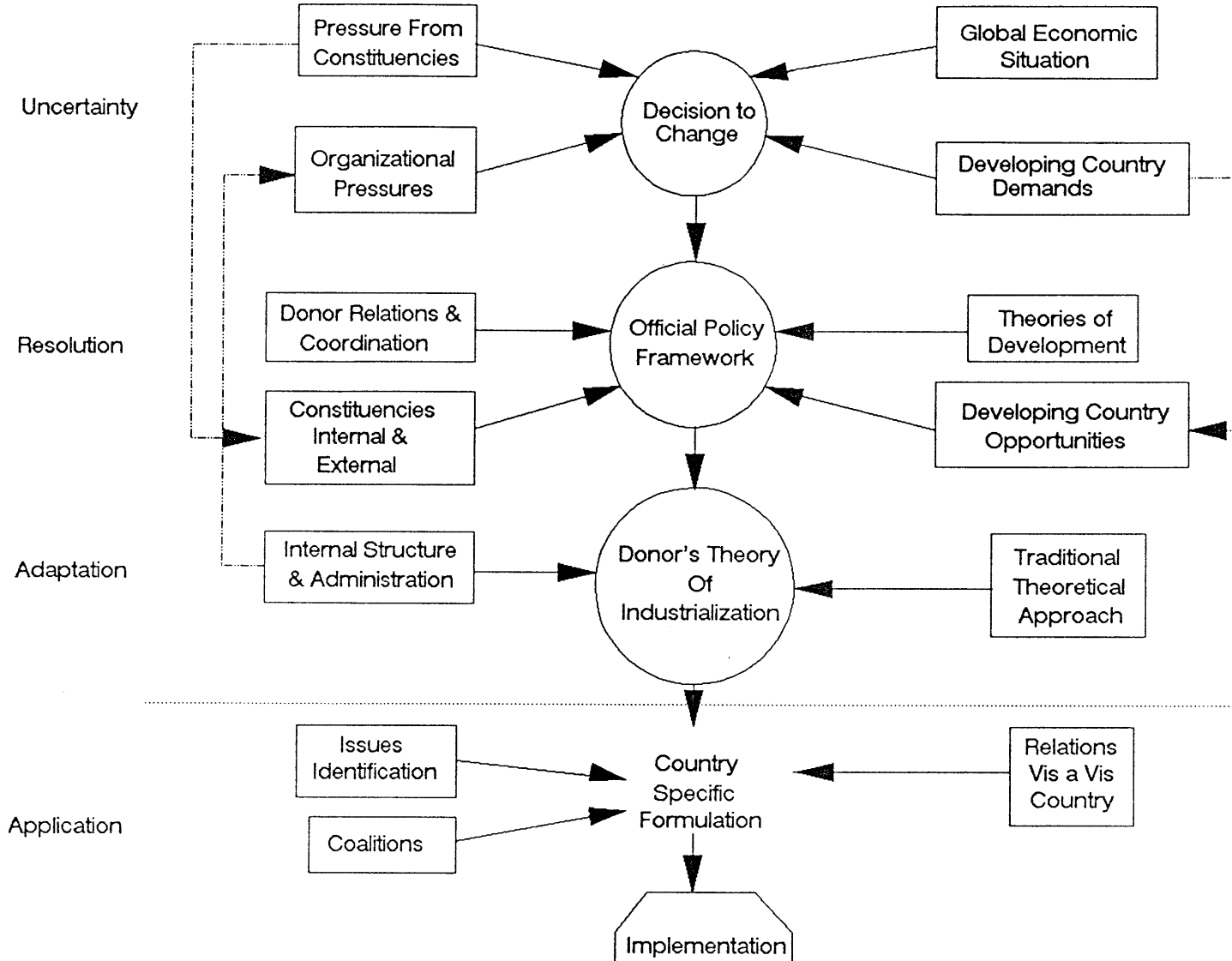
variety of approaches to industrial programs were developed. Some donors focused on program support aimed at changing the environment within which the private sector operated. Others developed specific interventions such as credit programs and technical assistance.

The question is: what triggered this movement into industrial programs and why were different approaches developed by donors? The analysis of CIDA provides some answers to these questions. While the specifics of the experience of CIDA in industrial development are unique to that organization, a number of factors can be gleaned from this experience which have applicability to other donors and provide insight into the process of change within donor agencies.

As is evident in Chart 2, change has resulted from a complex interaction of forces both inside and outside of CIDA. These forces are not just political or commercial but involve influences from a wide variety of sources which push and pull the organization in a number of directions. How CIDA has formulated its approach to industrial development has resulted from the resolution of these pressures.

While some of the factors are common to all donors, others have specific manifestations which influence how a donor will approach the issue of industrial support. It is these differences which determine how the various donors define

CHART 2
CYCLES OF POLICY FORMULATION



their programming and why disparities exist between approaches.

The Decision to Change

Each of the major shifts in CIDA policy has been triggered by a period of growing uncertainty. This uncertainty has been aggravated by varying combinations of four factors: the global economic situation; pressures from internal or external groups; demands of developing countries; and organizational pressures for change. While presented on Chart 2 as independent influences, in fact, these variables interact to change the climate within which CIDA operates.

March (1988) points out that organizations are continually changing in response to demographic, economic, social and political forces. These routine responses present stable processes of evolution which all organizations undergo. It is only when the environment changes rapidly, that the organizational shifts must be dramatic. A difference is therefore evident between an evolving organization and one undergoing large policy shifts.

While CIDA was continually buffeted by changes in the external environment, it has only been in severe cases of fluctuation that dramatic policy redefinitions have been undertaken. While the process has not necessarily been fast, in some case the trigger point has been finally reached when the four factors--global economic situation, pressure groups,

developing country demands, and organizational viability--made continuing on the previous path unsustainable. At these junctions, CIDA has moved to formulate a new approach to development.

Each of these four factors represent common elements which act as pressure points for all donor organizations. It is not a coincidence that many donors have dramatically reoriented their programs at about the same time. The nature of the development process--specifically its unpredictability--and the fact that both bilateral and multilateral organizations deal with a wide range of countries makes the donor's environment more unstable. Numerous pressures are outside the control of the donor.

The fact that large shifts were seen in many donor's programs in the early 1970s and again in late 1970s and early 1980s is a reflection of these forces. The late 1960s and early 1970s saw fundamental changes in the developing country approach to aid.¹ The interest in aid based on large infrastructure and technical assistance projects was waning as countries began to target more independent industrialization paths.

At the same time, the number of donors had increased substantially causing donor competition in the market. The availability of recycled eurocurrency in the 1970s further

¹ For a more detailed discussion of these changes refer to Chapter 2.

decreased the demand for donor funds in a wide range of developing countries. These countries were able to access private sources with no strings attached and as a result the demand for aid lessened. The result in many cases was that donors had lost their niche in the development market. Current programming was no longer in demand and was therefore no longer tenable. A new approach had to be developed.

At the same time, the underlying development theory which donors had followed throughout the 1960s was also being questioned by a wide range of groups. The capital constraint approach had not produced self-sustained development nor a more equitable distribution of benefits via trickle down. Donor programs were being criticized and placed under increasing review.² Both multilateral and bilateral donors began to shift policy focus and establish a new role for their aid programs.

The factors pressuring for change, therefore, work together to push for new programs. The global economic situation, particularly in the last 15 years, has dictated to a large extent the policies within both developed and developing countries, and changed the possibilities for donors as well. Developing countries, which act in essence as the donor's clients, have shifted their demands for programming increasing or decreasing the relevance of a particular donor's approach.

² Including the commission set up by the World Bank and headed by Pearson (1969).

These pressures have been aggravated by internal organizational problems faced by donors and the increasing pressures from different pressure groups. The decreased demand for donor programs meant that the donor organization could not disburse funds, threatening the viability of the bureaucracy. The constituencies of the donors also exerted pressure to react to the changing climate. In CIDA's case, the constituencies were the groups to which it related domestically and internationally. This included the electorate and pressure groups within Canada as well as the community of developed countries.

While the pressures manifest themselves in different ways, both multilateral and bilateral donors must respond to changes in situations within developing countries, global economic fluctuations, internal pressure groups and the outside developed country community. How these forces interrelate determines the program approach of the organization.

The changes within the World Bank during the 1970s show how these factors work. The Bank had developed a market niche during the 1970s which focused on implementing programs of redistribution with growth and developing the Bank into an institution which was the intellectual centre for development. The structural crises of the late 1970s, negated this role by forcing countries to refocus their efforts and deal with immediate balance of payments (BOP) problems.

This shift in "possibilities" at the country level and the increasing emphasis on solving BOP problems demanded that the Bank find a new role to play in the development process. While wanting to maintain its position as the dominant player in the development process, the Bank also realized that it needed to shift its emphasis away from traditional project lending, toward more quickly disbursed lending which was being demanded by developing countries. The project focus hindered the ability to disburse large amounts of aid. In 1980, the Bank started its Structural Adjustment Lending (SALs) aimed at assisting longer term policy changes and providing large transfers for BOP support.

The direction which this shift took, however, was largely a function of the pressures being exerted by the Bank "internal constituencies". Although multilaterals are viewed as being above political pressures and more "objective" than bilateral donors (for example see Cassen and Associates 1986), in fact, the Bank is subject to pressure from its developed country members--particularly the US. The Reagan administration singled out Bank projects as examples of inappropriate lending and promoting inefficiency (Ayres 1983). A report of the US Treasury Department (1982) formalized the US criticism of the Bank and its agenda and insisted that the Bank more aggressively enforce conditions which ensured that developing countries moved toward greater emphasis on market signals, private sector development and greater financial participation

by banks and private investors. The character of the initial conditions was partly a result of these internal pressures within the Bank's Board of Governors.

To solidify its position vis a vis the rest of the donor community, the Bank also had to ensure that it maintained the role of prime development agency within the developed countries. The threat that the increased demand for IMF programs posed to the Bank's position as BOP supporter meant that a clear distinction had to be made between the Bank and IMF programs. As one official at the InterAmerican Development Bank indicated to me, this competition for definitional distinction and purity ended with both organizations pursuing the same development model.

The IMF took a short term approach with the Bank claiming territory over the longer run development strategy as a whole and sectoral policies. This meant that the Bank's approach to industrial development aimed at changing policy initiatives within countries. Industrial policy basically became equated to trade policies. The other donors were then expected to operate within this framework.

Policy Formulation

While differences exist between donors, the pressures for change many times are similar--and beyond the organization's control. The donor must act to resolve these conflicts by

formulating programs which allow a new program niche in the development process to be established.

The CIDA policy formulation process was solution driven--something which appears to be common with other donors. March (1988) indicates that organizations faced with a large number of problems tend not to focus on the problems but a selected number of solutions. The problems are too complex and focusing on finding solutions to problems only increases the uncertainty for the organization. Instead, solution driven organizations tend to focus on a small number of possible solutions--choosing among them.

The policy formulation process followed by the Bank in the above example reflects a similar process followed by CIDA. Once the decision is made to change direction, a number of factors come into play--namely pressure from internal constituencies, relations with donor community (and developed countries as a whole), the opportunities at the developing country level and acceptable theories of development. Each of these contribute to formulation of the solution or niche for donor programming to follow.

CIDA's initial movement into direct bilateral industrial programming in the early 1980s reflected pressures from a number of different directions. While one would have expected the commercial groups within Canada to be the most vocal regarding industrial programs, in fact they played a limited role in the bilateral programs developed. A number of other

groups, including non-governmental organizations, were becoming more involved in micro, small and medium enterprises and were pressuring for programs in this area. The fact that the focus was on smaller enterprises dispelled any question of competition between the Canadian private sector and the developing country.

A more important factor was the shifting priorities at the developing country level. The structural crisis had opened up opportunities for programs aimed at smaller enterprises. Many of these were hard hit by the BOP problems--limiting imports, markets, etc.--and the government's ability to assist with adjustment was limited by fiscal constraints. Yet much of the literature during the 1970s indicated the important and dynamic role which the smaller firms played in development. The fact that the donor industrial programs could now focus directly on the private sector, not public sector industrial enterprises, meant that philosophically Canada did not have a problem with industrial support.

In addition, the donor community as a whole was shifting focus toward a more private sector orientation. The shifts at the Bank described above were reflective of this process. The Bank started to promote a development strategy which was private sector driven and which set the tone for other donors to follow. Industrial programming had now gained acceptability and Canada and other bilateral groups began to develop programs.

The changes which have taken place within the Dutch aid program in the 1980s reflect a similar process to CIDA. According to Erath and Kruijt (1988) the global economic situation in the early 1980s triggered a re-examination of aid programs from the self-reliance and poverty abatement focus of the 1970s. The relevance of these programs was brought into question by pressures within the country and by the shifting focus at the developing country level.

The Dutch aid program shifted towards a focus on rural and industrial development. As of 1983, the emphasis was placed on "increasing productive capacity, undertaking activities which generated income, and created employment rather than new welfare services". The key to development in developing countries was now seen to be in directly targeting the industrial enterprises and working with the developing country private sector.

a) Constituencies

In terms of industrial programming, the assumption is many times made that bilateral programs are driven purely by commercial interests. Export groups within the donor country pressure for changes which support their desire to participate in the markets of the developing countries receiving aid. The programs which result are focused on promoting the donor country interests as much as the developing country needs.

This analysis was true for one type of programming which increased during the 1970s in a wide range of bilateral groups--including CIDA. Many donors began to move into industrial cooperation and mixed credit programs. The former groups of programs aimed at building linkages between the developed and developing country private sectors while the mixed credits were purely schemes for increasing competitiveness of the developed country commercial groups.

CIDA's Industrial Cooperation Program (INC) which was begun in 1977 represented the culmination of pressures from both the commercial groups within Canada and other portions of the Canadian bureaucracy such as the Ministry of Industry and Trade. These groups wanted a program which was responsive to Canadian needs and would operate outside of the normal bilateral aid channels in middle income countries. While the Bilateral programs at this time were focusing on basic needs and the poorest countries, the INC program would run an independent series of programs which were driven by Canadian needs.

This INC program, while small in terms of percent of overall budget (less than 1%), served to dispel many of the pressures on CIDA for commercial support. It also gave CIDA an additional argument for how aid was benefitting Canada and the developing countries--something which became increasingly important with the recession within Canada in the late 1970s.

While the driving force behind the program was clearly commercial, the rationale put forward was one of "mutual interest" which originated in the NIEO debates and was reinforced in the Brandt report (1980). Portions of the NIEO debate rested on the notion of interdependence of nations. This interdependence meant that programs aimed at mutual benefits were no longer "selfish" but in each country's "self-interest". A program therefore could have two objectives; supporting the donor's domestic interests as well as the developing country's developmental interests.

Other donors took similar steps and provided similar rationales during the late 1970s. By the time CIDA put in place its program other countries such as Germany, Britain and France were already operating similar ventures. Sweden started a program in 1978 to enhance industrial cooperation. The Swedish example is interesting because it also represents a donor--who like Canada--perceives itself as being more developmentally driven than commercially.

The Swedish program, SWEDFUND, was begun outside of the Bilateral stream as well and aimed at much of the same types of support as the INC program--technology transfers, joint ventures, preinvestment promotion and training. Clearly driven by commercial interests, the program was also put forward with the "mutual benefit" rationale. As Grettve (1986) contends the NIEO debate provided an easy way for Sweden to put forward programming which supported aid giving

at a time of domestic recession and was a concession to commercial interests.

While the industrial cooperation type programs in most donor countries were intended to have some positive developmental impact, the mixed credit schemes which developed were clearly only benefitting the donor countries' commercial interests. The increase in mixed credit type programs as part of the aid scenario has taken on greater importance in a number of countries especially Britain, France and Japan and has acted as a pressure on other countries to follow suit.

By combining commercial credit and aid, the country's exporters can have an advantage in the export market. Canada has begun to increase the proportion of aid funds which are used as complements to Export Development Corporation financing, although the proportions are small. The US moved to mixed credits in 1983. Increased use by competitors in Europe and Japan caused a movement within the American business community to develop programs. An act was passed in 1983 which allowed AID to join with the Export Import Bank to develop mixed credit schemes. The irony of this was that the shift to mixed credit contradicted the free market approach of the Reagan administration. As well, the AID administration fought against the implementation of the mixed credits since they undermine the purpose of the development assistance by diverting scarce development dollars.

Mixed credit schemes have been continually condemned by the Development Assistance Committee as being clearly non developmental. When the British program was begun in 1977, its purpose was to develop programs either where no aid program existed or in countries where funds had been fully expended (Toye and Clark 1986). While developmental concerns were stated as part of the rationale for the program, another objective was "combatting the aggressive use of aid by trading competitors" (which was a demand of the commercial groups at that time).

While both developmental and commercial objectives were to be served by the British program, achieving both objective has proved impossible. As Mosley (1987) notes, the large sums involved and the short approval periods many times mean that little or no developmental criteria can be applied to a project before approval. As he describes it, a proposal may have to be approved within the British ODA system within a matter of days if a company is trying to compete. Unless commercial competition decreases, it is unlikely that bilateral donors will drop the mixed credit schemes.

While the industrial cooperation and the mixed credit schemes represent clear cases of programs driven by commercial interests, other types of industrial programs--under the bilateral umbrella--have commercial interests as only one input into the program formulation process. While they contribute to setting the bounds for acceptable solutions, the

programs are not dictated merely by commercial interests. The reluctance of CIDA to enter direct industrial programs during the 1960s was partly driven by fears of competition for domestic firms. These concerns were overridden by other factors during the late 1970s when the bilateral industrial programs were being formulated.

Other groups besides simply commercial interests must be analyzed to track policy formulation, in both multilateral and bilateral groups. International and domestic movements bring some issues into prominence as has been seen in the last decade with women in development and the environment. The strength of these groups partly dictate how much influence they will be able to exert on policy formulation.

Constituencies also include the political environment of the donor as well. In the World Bank example, the pressures from its member countries, and especially the US, pushed it toward a more private sector oriented approach in late 1970s. In the case of US AID the changes during the 1980s have clearly been a reflection of shifting political focus of the Reagan administration. The ability to actually implement these reforms was partly the result of the Administration's move to place carefully chosen appointees in critical positions governing the international development sphere (Sewell et al 1985). This was confirmed by interviews which I had with a number of the leading advisors within AID. Not only were the advisors politically appointed, but more importantly they

portrayed a uniformity of approach to development which supported and extended the Administration's policies.

For Canada, its relationship with international constituencies has also impacted policy formulation. Canada has attempted to position itself in development debates in a fairly distinctive manner. While not breaking ranks with the rest of the developed countries, Canada has made sure that it is seen as more flexible and open to developing country concerns.³ An article in the **Economist** (October 8, 1988) stated that "Canadians like to be liked by everyone, especially in the Third World countries." This desire to be an intermediary in development debates had an influence on the policy formulation of CIDA especially during the 1970s.

A wide range of internal and external constituencies, therefore, play a role in the programs formulated. While some industrial programming has clearly been driven only by commercial interests, others have a more tempered approach. It is necessary, therefore, to move beyond the assumption that understanding industrial programs is merely a function of understanding the commercial interests within a country. The range of constituencies which are involved in pressuring for changes within both multilateral and bilateral donors is much broader.

³ A number of the reasons for this desire are included in Chapter 2 and reflect a range of variables including the personality of the Prime Minister as well as the position of Canada in international affairs.

b) Donor Coordination and Competition

One of the influences on policy formulation within donor agencies are the actions of other donors. As indicated previously, many donor agencies have entered periods of crisis at the same time--and caused by many of the same reasons. These cycles of change are often triggered by events outside the donor's control--such as changes in global economic situation, changing attitudes and demands of developing countries--and impact both bilateral and multilateral donors. This growing uncertainty within donor organizations is translated into periods of flux throughout the aid community, increasing the instability of the environment. Many donors are looking for solutions to the same development problems at a time when the entire community is coming under criticism.

Cyert and March (1963) put forward a theory of negotiated environments for firms. This theory states that organizations, in an attempt to stabilize their environments, are sometimes willing to come to an agreement with competitors about who will handle which markets if this will make the organizational environment more stable. The cooperation, which can extend to firms helping each other with technical expertise, financial resources, or finding new clients, is seen as enhancing the individual organization's chances of success.

Crane and Finkle (1981) argue that this type of compromise is impossible for the World Bank since its models of cooperation have allowed it to play the leading role in the donor community since the 1970s. This means that the Bank is unwilling to compromise with competitors. The reasoning fits, however, the expectation which the Bank has for the rest of the donor community. The Bank's philosophy is that it should set the pace and design the broad approach to development assistance and the other donors should fit into the slots which the Bank develops.

This principle supports what the Bank sees as the ideal division of responsibility between itself and other donors. In my interviews with Bank staff they clearly stated the roles they see for various donors. The Bank considers itself the primary development institution which sets the development agenda, negotiates the policy changes on a country by country basis and sets the pace for other agencies. The other multilaterals are seen as the vehicle to increase and support the pressure for change. The bilateral donors are then the agencies which provide funds (conditional on Bank targets) for technical assistance and the "projects" which allow the implementation of the Bank program.

It is obviously in the Bank's interest to have other donors supporting its efforts. The focus of the policy dialogue of the Bank means that the more donor support the Bank receives, the more leverage it will have at the country level to obtain

the changes wanted. It also means that the possibility of acceptance of its development solutions is increased.

The calls by the Bank for increased coordination of activities are being reflected in the overall donor community. The demands for increased coordination are seen in annual reports of Development Assistance Committee (DAC) and in every aid review undertaken in the last eight years (DAC 1987). Most of the rationale for increased coordination is based on the problems created at the country level with conflicting programs. Many examples exist of countries trying to cope with a plethora of donors all demanding different policy initiatives, doing independent analyses and trying to lever the system. These often conflicting demands and programs put a strain on resources at the recipient country level and make effective planning and implementation more difficult. As Cassen and Associates (1985) indicate, the solution to this problem is increased donor coordination and complementarity of programming.

These pressures for coordination do have some impact at bilateral donor level. Inherent in the pressure exerted by donors on each other (through consultative groups, donor coordination through DAC and through foreign affairs channels) is the desire to reinforce the role that each donor has staked out and decrease the competition among donors. Each is attempting to establish a separate niche in the assistance picture which supports the general development effort. In

this sense, donors do have an incentive to cooperate and coordinate efforts.

Part of the reason why CIDA moved into a heavy emphasis on institution building in 1987 was because the need had been identified and promoted by the developed countries (and numerous aid reviews such as Cassen and Associates 1985). Canada saw an opportunity to provide a part of the puzzle which complemented other donor activities--such as the World Bank programs--and for which demand could be generated in the field.

While donors may have general approaches to aid which complement an overall coordination effort, the actual coordination between programs tends to be more influenced by other factors when applied to a specific country. According to Berg (1980) the chances of increasing donor coordination at the country level are minimal. The sheer number of donors operating in an individual country makes it difficult for effective coordination by the country. The level of complexity and diversity of approach of donor programs make it impossible for DAC or other donor groups to coordinate efforts. What Berg recommends is that the developing countries increase their ability to manage resources--development budgets, trade credits, private investment, etc. This along with the cooperation of donors should help to resolve conflicting demands.

Berg's assessment appears to be naive about the motivation for donor coordination, however. Whittington and Calhoun (1988) put forward a case study of an attempt within Sudan to simply develop a data base of the ongoing, planned and completed development projects which had been funded by donors. The project, which was funded by US AID, was a complete failure since few, if any, of the donors were willing to cooperate and provide the information.

Two reasons were put forward by Whittington and Calhoun for this reluctance in the Sudan project. First, little incentive existed within donor bureaucracy for working with other donors. Unless there was something for the individual to gain, they had little reason to cooperate with another donor. Second, most donors viewed the Ministry of Planning not as a help in implementing projects but as an obstacle. An effective Ministry would limit the discretion which the donors currently had over formulating their own projects and plans.

While donors may be willing to coordinate some efforts at the policy level, coordination becomes more difficult at the country level. The current attempts to increase donor coordination can be viewed from two perspectives--decreasing the conflict between donor programs within a particular country or increasing the monopoly position sustained by the donors. My involvement in the Philippines indicates the emphasis there is certainly on the latter point.

CIDA as the new player in town has been developing relations with the other donors in the Philippines, trying to establish where they have programs, ensuring that CIDA programs do not conflict with existing ones, and exchanging information and perceptions. The donor community in the Philippines, however, is very strong. The World Bank and the US in particular have not only had very active and large programs for decades but both organizations have exercised considerable influence over the decision making process within the Philippines (see Bello et al 1982 and Ofreneo and Habana 1987 for a review of this issue).

The US, during 1988, put forward the notion of a Mini-Marshall Plan scheme for the Philippines which would see all the donors banding together to make a long term commitment to Philippine development. The idea would be to channel US\$10 billion to the Philippines over a five year period with US\$300 million per year coming from the US. The funds would be tied to meeting World Bank targets with the World Bank monitoring the country's progress. Japan, the country's second largest bilateral donor, has agreed to the plan (although Japan wanted the IMF as the monitoring agent). If the plan goes ahead, little doubt exists within the Philippine donor community that all the donors have to and will come together to support this process.

The strength of the primary donors and their ability to influence actions within the Philippines is partly the result

of a lack of coordination within the Government vis a vis donors. The lack of unity is evident in discussions with officials and even in the speeches and newspaper reports of various Ministries. One group says one thing, only to be contradicted by another Government spokesperson. This has helped the donors to solidify their position towards policy reforms and increase their control on the donor process. While the Government tries to call donor meetings or negotiate an agreement, the donors are in command.⁴

The consequences which this arrangement has for CIDA and specifically the industrial programming are important. Pressure is already being exerted on CIDA to not only conform to the policy reforms being demanded by the US, Japan and the Bank, but also to undertake programming which specifically supports their efforts. The Bank in particular is concerned that the industrial programs implemented complement its efforts and discussions are being held about how to accomplish this.

While coordination is needed between donors, the debate about coordination should focus on whether that coordination should be done by the country or by the donors. In the case of the Philippines, a few donors are clearly in control and

⁴ This was evident particularly when a notice of a meeting of donors was forwarded by one of the Government Ministries to the Canadian Embassy. At the same time, the Bank and US AID were indicating that they did not want the meeting at the scheduled time. The result was a retraction within days from the Government.

have the leverage to pressure the rest of the donor community into coordination of a particular type.

With donors in control, coordination becomes a way to ensure a greater degree of domination over the transfer of funds and the actions of the recipient country. The pressure which is exerted within the donor community even at the policy formulation stage to ensure compatible programs acts as an influence on the overall program approach which will be developed. An acknowledgement of these pressures is found in Erath and Kruijt (1988) when they state that the aid program in the Netherlands was guided by "the policy guidelines elaborated in circles of the World Bank".

c) Developing Country Opportunities

Hughes (1987) puts forward a model of capital flows to developing countries which sees countries passing through three stages. In the first stage a low income country is dependent on trade credits and official development assistance for providing external capital. As a country grows, its ability to attract private international capital is increased and acts to supplement aid. In the third stage, the country has reached a sufficient level of development and creditworthiness that it is no longer dependent on tied funds such as aid but can now receive funding through banks.

While these three levels are more or less still evident, events over the last fifteen years have forced movement

between levels to become more inflexible. During the 1950s and 1960s, demand for foreign aid increased partly in response to the many countries who became independent in this period and partly to assist with the growing economic activity in Latin America. During the 1970s many countries, particularly in Latin America, were able to accelerate their access to private flows of funding because of the eurodollar markets. This allowed countries, which would have otherwise been dependent on aid to a much larger extent, to define and follow more independent routes, thus decreasing their demand for aid.

The decrease in private flows since the late 1970s has narrowed the possibilities for countries and forced the three scenarios to become more rigid. According to the OECD (1988a), developing countries currently have limited options in terms of new funding. While official development financing represented only 35.2% of the total net resource flows to developing countries in 1980, by 1987 this figure had increased to 70.6%. The report also notes that African countries are almost totally dependent on aid for funds and as a result donors are now determining the development agendas. At the other end of the spectrum are countries such as Korea and Taiwan which are becoming less dependent on even private financial flows due to the strength of their economies.

Inherent in both the Hughes and OECD analyses is the correct assumption that developing countries accept aid as a resource flow when other options are limited. Demand for aid for a

range of countries decreased during the 1970s.⁵ The current increase in demand for assistance, particularly for balance of payments, is attributable to the lack of private funds and the desire by governments to pursue both adjustment and some form of growth strategy. In five years, the demand patterns may shift again, depending on a wide range of factors such as the debt and global economic situation.

With each of these shifts in availability of private funds comes a shift in the demand for donor funding. Developing countries represent donors' markets, and the donors' products--both programs and projects--must be geared to fulfilling the demand in these markets. Currently, the highest demand is for untied grants--or straight balance of payments support. These would allow the maximum flexibility at the country level. Few donors want to provide this without conditions, however. At the other extreme, while it is true that many developing countries target their requests for funds to programs which the donor is offering, factors within the "market" make some products unviable. This was the case with infrastructure to a certain extent in the 1970s. It is also currently the case for any programs which require a large counterpart fund requirement from developing countries as part of the package.

⁵ The shift in Canada's programs in the 1970s to the poorest countries partly reflected the fact that these countries had limited options and therefore represented the highest demand.

The narrowing of private capital markets has translated into increased demand for aid funds for private sector projects. The restricted access of firms to capital, the decreases in government spending, the increased costs of adjustment, the pressures for employment and income, and the desire of governments to follow a strategy partly based on growth have all contributed to increased demand within developing countries for private sector oriented aid projects.

The development of programs by donors, therefore, is a tradeoff between what is desired by developing countries and what is no longer viable for the donor to offer. The shifting demands at the developing country level translate into shifts in opportunities for donors to deliver programs. The need for finding a market niche has driven donor programming to a certain extent over the last two decades.

d) Theoretical Underpinnings

The donor community as a whole has shifted its theoretical base a number of times since the 1950s. While these shifts never included more "controversial" theories such as dependency or centre/periphery arguments, they did reflect an attempt by the international community to come to terms with the development problems faced by developing countries. The debates at the international donor community level have also clearly had an impact on the basic theoretical approach taken by individual donors. In essence, the shifts at the

international level act as parameters for acceptable theories of development and act as a boundary for finding suitable "solutions" to development problems.

The initial focus of Canada's aid program in the 1950s and 1960s built on the theories of development prevalent among donors during that period⁶. The capital constraint theories maintained that a distinct contribution could be made by aid aimed at increasing the physical capital within a country. Programs such as infrastructure and training could help the development efforts by providing needed capital (physical and human) which would increase production and indirectly alleviate poverty.

CIDA did not directly involve itself in industrial projects. CIDA saw two problems with directly supporting industrial ventures. The first was competition with Canadian producers. The second was the emergence of publicly owned industries which were the obvious market for donor funds (since they were many times large scale and based on more developmental than rate of return analysis).

While the first pressure has already been discussed, the question of public ownership is important to review from a theoretical point of view. Despite its mixed economy, Canada

⁶ Theories of development behind CIDA programming are addressed in detail in Chapter 2. During the 1950s and 1960s, the program relied heavily on approaches such as Rostow (1960) and Chenery -Strout (1966) two gap model. Only passing reference is made here to specific orientations.

saw a real problem with supplying funds to public projects. The fact that many of the industrial projects being undertaken within developing countries involved the public sector made Canada and other donors reluctant to provide funds.

Wood (1986) documents this trend throughout the 1960s and 1970s. His contention is that donors withheld support as a way to ensure a certain type of industrialization--one which relied on private ownership, openness to foreign capital, reliance on market forces and export orientation and private capital. The support which was reluctantly given during the 1970s by the World Bank and a few other donors was aimed only at very large scale projects. The rationale given by donors was that these projects were too big for private support but were still necessary for developmental reasons. The assumption also was that the ownership would eventually be transferred to the private sector.

From a theoretical point of view, donors clearly did have a bias towards the private sector playing the key role in industrial development. Underlying the development theories of the 1960s that were being advocated was an inherent split between public and private roles. The public sector was to provide the support mechanisms, the private sector was to provide the production.

This bias was particularly upheld by the World Bank during the 1950s. Mason and Asher (1973) describe how the Bank attempted to constrain the activities of its borrowers in

terms of public involvement in industrial undertakings. Not only did the Bank not want to fund public projects but it felt that the countries should not even be engaging in them. India, in particular, was criticized for "underestimating [the private sector] and subjecting its operations to unnecessary restrictions".

This division of responsibility totally ignored the import substitution debate started in the late 1940s. Prebisch (1949) and others brought into question the accepted trade theory and put forward an analysis which called for developing countries to aggressively change their comparative advantage. The vehicle was through an import substitution program. Within this, the public sector took a more active role including direct provision of industries. Neither the argument nor the active role of the public sector were accepted by donors during the 1960s.

While the stand of donors softened somewhat during the 1970s towards direct involvement in industrial activities, it was not until the late 1970s that the theoretical obstacles were lessened. The balance of payments crises within developing countries forced a shift in approach to industrial development which suited the donor community. Industrial programs were now being dictated by budgetary constraints and as a result the split between public and private sector responsibilities was changing. The private sector was increasingly relied on as the engine of growth.

The increased reliance on the private sector within developing countries allowed a redefinition of industrial projects by the donors in the late 1970s. While still focusing on the importance of private capital, foreign investors, etc., the donors were able to set up programs which directly supported the industrial sectors within developing countries.

As Cassen and Associates (1985) state this shift reflected a change in approach to industrialization within the donor community. Four elements were now important to guide industrialization: a better appreciation of the limits of the public sector; an enhancement of the private sector's role through improved management capabilities; a focus on the context within which the private sector operated including pricing, markets, technology, and technical skills; and attention to the overall policy environment which impacted the firm.

These principles appear to be fairly consistent across donor programs. Within this broad approach, however, variations in application do exist. The World Bank takes a very price oriented approach to programming, while CIDA's is more based on overcoming structural problems. How they went about designing the programs was based on their underlying theoretical approach to industries which is covered in the following section.

Developing a Theory of Industrialization

The overall policy framework which is determined at an official level within donor agencies is adapted by the organization before it is implemented in the field. Unlike traditional theories of organization which see bureaucracies simply as implementors of policies, the aid bureaucracy assists in the policy formulation process by adapting the broad official program guidelines into a specific approach to an issue. As Cohen et al (1985) states, bureaucracies "play a significant and active role in framing the policy agenda, supporting particular options,... and affecting the course of policy, program and project implementation".

In CIDA's case, the adaptation was influenced by two variables--the traditional theoretical approach of the donor organization, and its internal administrative structure. While many of the specifics of the CIDA example are not applicable to other donors, some general comments can be made about these two factors.

a) Traditional Theoretical Approaches

Developing countries continually criticize donors for attempting to impose their perspective of development on the recipient countries. Inherent in this criticism is the belief that donors do not simply undertake objective assessments and produce rational solutions which should then be implemented. Each donor has a theory of development from which it works,

which partly shapes past programs and influences the parameters for undertaking new programs.

Underlying this document is the belief that donors do have a theory which guides the way they undertake programming.⁷ Donors do not have any more ability to find the right answer to development problems than developing countries. In fact, donor's quests for various new solutions which might work are one of the driving forces behind changes in programming. Yet, donor organizations are rarely viewed as institutions which have ongoing or consistent value sets.

Crane and Finkle (1981) present one of the few examples of treating a donor as a organization with values. They contend that the World Bank has become an institution with key values and possessing a distinct identity--in essence a "committed polity". These values make the Bank more resistant to changes that threaten to alter its fundamental character. In approaching the population issue, Bank officials redefined the objectives of the program to fit with the way the organization approached problems--a solution which relied on a traditional project approach. This project approach proved to have little

⁷ It should be kept in mind that the focus of the discussion is primarily on industrial assistance. Other types of programming--particularly disaster relief or food aid--are driven more by humanitarian concerns and therefore might break out of the organizational approach. Enterprise support has traditionally been more open to theoretical biases and therefore is more clearly shaped by the donor's values.

applicability to population issues, however, and as a result programs were unsuccessful.

In a review of rural development projects, Tendler (1982) evaluates the shift in the World Bank toward poverty projects. One of the obstacles to effective delivery of programs to the rural poor was how the Bank defined its programming. Tendler contends that in an attempt to have continuity in its theoretical approach, the Bank designed the poverty programs as a modification of the old growth theories. This bias meant that income generation would be accomplished through increased production. The production orientation of the Bank meant that the target groups were rural producers not workers. While this generated some positive results, this focus on production also caused a number of problems in terms of effectively reaching the poorest groups. The Bank's theoretical bias predetermined the success or failure of certain initiatives.

The World Bank's theoretical approach to industrial support continues to focus on the same variables of growth, production and rate of return. The Bank's theory of industrialization currently relies on the price mechanism for making adjustments within the economy which will allow industrial development. If certain externally-oriented policy changes are made, then the environment for investment and industrialization will improve sufficiently to encourage firms to expand. In essence, by changing policies, industrialization will take hold on its own. Firms which can not adjust and take advantage of the

opportunities will die. Those that show they can make it will be given assistance to increase their production facilities and capacity utilization.

This bias in the way each donor approaches a problem sets the bounds for how solutions can be found. The industrial sector provides an interesting example of this since industrial projects would appear to be more traditional in character. However, the movement towards enterprise programs represents an interaction between values of the organization and adaptations of theories.

As mentioned above, the shift toward direct programs by some donors during the late 1970s was partially the result of the removal of theoretical barriers to direct involvement. With the growing balance of payments problems, increasing emphasis was being placed in developing countries on the private sector, export orientation, openness to foreign capital--the elements which conformed with the donor view of the industrial process. The demand for private sector support was also changing as the country's opportunities for private capital decreased. Programs could now be developed which did not contradict the general theory of appropriate industrial activities. The issue became how each donor would define its own approach.

The decision by CIDA in the late 1970s to enter this area represented a shift in how enterprises were viewed. CIDA's Bilateral programs saw enterprise development as providing

developmental support through small and micro enterprise programs. To do this, CIDA needed to redefine industrial issues from a developmental perspective. The CIDA tradition of emphasizing self-reliance, trying to align itself more with developing countries, and emphasizing efficiency with equity meant that the approach formulated within CIDA used this framework for developing an enterprise approach.

The result was a more structuralist analysis by the Industrial Services Section. While relying on the private sector, the CIDA approach acknowledged structural bottlenecks within developing countries. Problems such as non-competitive markets and non-availability of inputs act as obstacles which prevent the industrial sector from developing. All policy shifts result in changes in distribution and therefore firms should be supported in the transition to a more efficient economy.

These theoretical underpinnings are clearly seen in how the different donors translate their policy framework into programs at the country level.⁸ CIDA provides support in terms of imported inputs, marketing, credit access, building

⁸ It should be remembered that the theoretical approach and the specific interventions between donors are partly a function of how they view themselves in the overall donor community. The Bank's niche has become program lending which by its nature has to be grounded in one development model. The choice of the outward orientation model was an outgrowth of the discussion in the previous section. As well, the role which CIDA has taken on as the more moderate, micro oriented donor focusing more on distributional needs is the niche which the organization has tried to maintain over the last two decades.

linkages within the economy, and informal sector development. The World Bank focuses more on lending programs which support policy reforms in areas such as trade liberalization, financial reform and privatization of public enterprises.

b) Organizational Adaptation

An interesting question in terms of how the organization adapted the approach to industrial development revolves around the issue of how a donor organization implements a new program stream. The focus on solutions which has driven many donor organizations in their attempt to find new approaches to aid, is also clearly at work within the operations of the donor agency. The program options or solutions are rationally reviewed and fit into the technical framework to develop an operational approach.

The shift which began in the 1970s toward more "rational" programming was an attempt by donors to decrease the uncertainty of their environment. Rondinelli (1983) contends that donor agencies continue to assume that their programs can be rationally conceived and comprehensively planned solutions to development problems. This assumption allows them to undertake a highly technical approach to developing and implementing programs with the assumption that the programming will work.

CIDA's reliance on the professional staff within the organization to operationalize its approach to industrial

development was partly driven by this need to increase the rationality of its approach. The matrix organization structure which was put in place in the early 1980s was a response to the quickly changing environment within the developing countries. The willingness of the staff to have the technical Industrial Services Section determine the industrial program was based on the technicians' ability to find solutions in a complex situation.

The Industrial Services approach of formulating a theoretical framework for industrial programs and using this as the basis for "rational" assessments within developing countries is common to many donors. The assumption that an objective assessment could be undertaken and programs developed is a typical approach but one which constrains how the programming can be shaped.

The ability to implement a particular approach within a donor organization appears to be partly a function of this "core technology". Crane and Finkle (1981) argue that the World Bank's attempts to implement a population program were unsuccessful, not only because of the complexity of the population issue, but because of the Bank's inflexibility in how it implements programs. The Bank staff have developed techniques for developing programs and projects which represent standard operating procedures. These define how tasks are performed and therefore how issues will be defined.

In some ways, industrial programs make the application of a rational planning approach appear more appropriate and reasonable. Unlike other interventions, programs aimed at the private sector can be based more on "objective" indicators such as risk and return. A review of the US AID private sector programs in the early 1980s, indicated that while appropriate programs could be designed, the lack of profitable opportunities particularly within Africa posed a problem for program implementation (US AID 1985). If profits could be increased, then AID predicted that the programs could be effective.

The focus on rate of return, however, may miss the real opportunities for programming within the industrial sector. As Rondinelli (1982) indicates, the tendency to insist on sophisticated techniques for analysis and implementation of programs many times creates more problems than it solves.

It is questionable that donors will have any more solutions to industrial problems than are already being investigated in the developing country. The need to bring some degree of certainty to programming, however, will perpetuate the feeling within donors that they do have the answers, particularly in the areas of policy framework--where rational techniques are least effective since no one set of policies can be applied in the same way to every country.

Country Specific Policy Formulation

a) Setting Their Own Agenda

Throughout the Bilateral and Industrial Services policy and program formulation exercises in the Philippines, an assumption was made that CIDA had a right to formulate its own program and attempt to put together a reform agenda which in some ways was more radical than the government's. CIDA never questioned the rationale that they could, in effect, operate outside of the Philippine Government framework for action. While always trying to take the Government preferences into account, the process was not to be confined by them.

This pattern of programming is typical of how the developed countries approach aid giving in a sector such as industrial development. The right of a donor to set its own agenda in a recipient country has always been an underlying assumption of the developed countries. When CIDA was started in 1968, one of the first debates within the organization was whether aid giving should be passive or active in terms of setting its priorities, becoming involved in policy and project formulation and establishing eligibility criteria.

CIDA decided on an approach in the late 1960s which tried to meld the organization's desire to control the use of Canadian funds with minimizing the friction between Canadian objectives and recipient country objectives. CIDA wanted to be more flexible than other donors who it saw as simply imposing their objectives on recipients. In a sense, CIDA took this same

approach in the Philippines--attempting to be open and yet still implementing its own agenda.

Underlying CIDA's program was the assumption that aid is not automatic or a developing country right. Donors have never viewed aid as an automatic transfer of resources but as a matter of their discretion. Despite attempts during the 1970s by developing countries to change the terms of aid giving, the decision to give or not give funds is still controlled by the developed country. According to Wood (1986) an adjunct to this reasoning is that a donor has the right to analyze the situation within a country and develop conditions for aid approval. These conditions are supposedly arrived at objectively and are justified on economic and technical grounds.

The rationale given by donors regarding the need to undertake independent assessments is usually founded on the principle that their assessments will not be overwhelmed by the local politics of the situation or the bottlenecks thrown up by bureaucratic unwillingness to change positions or procedures. By putting the analysis in terms of independent thinking, the donors are more able to look at problems and policies and recommend changes or programs which would not necessarily have support within the country.

Donors also contend that independent analyses are important because they allow a longer term view to be taken. Governments--particularly those facing crises--are more apt to take

a short run view aimed at producing results as quickly as possible. If donors accepted the issues analysis which flowed from this approach, the result might serve the needs of the Government's election campaign but not of the country.

From this donor perspective, the principle of CIDA setting its own agenda and undertaking its own analysis of issues is normal for a donor. While a gap may exist between the philosophical approaches, the CIDA agenda of social reform is no different than the World Bank agenda of trade liberalization and financial reform. Both donors assess the situation and apply their own framework for analysis which is then imposed on the recipient country. Both are attempting to promote change within the country. Both need independent analyses to provide the rationale for that change.

Setting their own agenda also allows donors to fulfil a number of other objectives which are more hidden. Using in-house analysis allows an easier integration of the donor's perspective or theory. The CIDA team attempted to combine the ISS theoretical base with the new CIDA priorities and develop an assessment which met both objectives. The overall policy framework outlined in the previous section must be integrated into the analysis.

Objective analyses also allow donors to hide their political agendas within a country. While every donor informally takes political factors into account, donors are usually reluctant to formally recognize political constraints facing a country's

ability to implement donor recommendations. Cohen et al (1985) attribute this unwillingness to factors such as the donor using independent studies as a way to get around negotiating political concerns and the inability of many staff to truly understand the political implications of actions.

Political factors have been a large concern in many donor programs in the Philippines, however. The concern of CIDA that President Aquino may not be able to overcome many of the obstacles which block implementation of a reform agenda is central to the program rationale. They see her moving towards the right and lessening the emphasis on some of the critical programs needed to broaden the base of power within the country. The World Bank has a different political concern. While President Aquino has completed many of the reforms of the various Bank SALs, some Bank staff members are afraid that her policies are too far left, that the government may not be truly committed to privatization and that the remaining trade liberalization agenda may not be implemented.

b) Appropriate Roles for Donors

The notion that donors have a right to make independent assessments and set their own agendas is part of a broader discussion about the relations between the donor and developing country. The focus during the 1960s and 1970s on project funding allowed a clear delineation of responsibilities between donors and countries. Strachan (1978) describes these

aid control systems as the recipient having ultimate responsibility for selection of the development strategy, choice of projects and programs to follow and the administration of the programs. The donor agencies then had responsibility to select projects and the right to ensure that monies were used in an appropriate manner.

These relations have begun to change, however, with the change in funding instruments in the late 1970s and early 1980s. The shift toward fast disbursing, non-project funds has meant that the project cycle no longer determines the relations between the two groups. Both donors and recipient countries are now taking on different roles.

The framework for the industrial programs by CIDA in the Philippines shows clear shifts in relations between country/donor. The use of funding mechanisms, Canadian Executing Agencies (CEAs) and direct support to Philippine institutions means that the traditional nature of "government to government" support has changed. The mechanism programs set out broad parameters for funding such as establishing a line of credit or a technical assistance program. The CEA assigned to the industrial mechanism basically administers the flow of funds based on set criteria established by the

Bilateral desk.⁹ The same type of approach is also seen in the Netherlands industrial delivery, although here the focus is more on non-governmental organizations.

While recipient government consent to the broad parameters of the mechanism is sought by CIDA, the control of the program is many times taken out of the purview of the government. Since approximately 95% of CIDA funds are grants, government guarantees are not needed as with many donor lending programs. In terms of the industrial programs, a government institution could be designated as the Philippine counterpart to help administer the program which would increase the influence of the government over the implementation. More likely, however, the institutions will be outside of the government framework.

The use of the CEAs by CIDA in other countries has resulted in a gradual decrease in the role of the recipient government over time. Many times the CEAs shift from being merely executing agents to providing CIDA Bilateral staff with more integral parts of programming process. Many intermediaries have developed links directly with the private sector in the developing country. The CEAs identify and develop programs which could be integrated into the CIDA Bilateral programming framework. CIDA staff have become responsive to these

⁹ The CEAs for the industrial projects tend to be private Canadian groups such as commercial banks, manufacturers associations, chambers of commerce, provincial departments of industrial development, private consulting firms and occasionally non-governmental organizations.

proposals and have begun to decrease their reliance on recipient governments to identify and determine development needs.

The donors who have moved toward policy lending as a vehicle for impacting the industrial process have made substantial changes in their relations with recipient countries as well. Cassen and Associates (1986) in their aid review for the World Bank Task Force on Concessional Flows stated that policy dialogues between donors and recipients once considered infringements on rights are now accepted as part of the new international relations. According to this argument, the resulting policy conditions--such as trade liberalization, privatization of industries and financial reform--imposed as a condition of program aid transfers, are accepted by both parties.

According to Cassen and Associates, the success of the dialogues depends on the availability of resources to sustain the adjustment programs, the analytical and negotiating capabilities of the recipient countries and the ability of donors to comprehend the local situation. While these variables are important, I think that other factors also come into play including the quantity of aid going from a donor to a particular country, the degree of dependence the recipient country has on that donor, and whether the underlying policy approach of the donor matches that of the recipient government. If a donor has a monopoly position within a country,

then the donor has leverage to force the acceptance of policy reforms. If a country has other alternatives and can do without the donor or can bargain from a stronger position, then the donor's position is weakened.

This has been one of the problems faced by US AID's attempts to support the private sector through both projects and policy dialogues. The amounts of policy based aid have not been sufficient to obtain the changes which AID feels are appropriate within the recipient country's policy framework. According to Sewell and Contee (1985), this has necessitated the combining of the security related aid with the policy dialogues to increase the leverage on the recipient country. This approach has not always been successful either, however. The ability to use the policy levers is inversely related to the political significance of the country. Therefore, the Philippines was less subject to ideological based US policy dialogues than other countries of less strategic importance.

This shifting relations between donors and countries is clearly seen in the Philippines with the relation between the World Bank and the Philippine Government. When President Aquino was elected in 1986, the government accepted Bank SAL and agreed to meet the conditions. In fact, the implementation rate to the end of 1988 was very high. The balance of payments crisis and the need to obtain donor funds (most of which were tied to the Bank program) basically gave the Bank a large amount of leverage over the Government.

By the end of 1988, the attitude of the Philippine Government began to shift. As the balance of payments problems eased with the rescheduling of debt and the economy became more buoyant, the Government began expressing little interest in the Bank loans being extended for various reforms. The conditions were being questioned and the costs of servicing the foreign debt were considered too high.

c) Coalition Building and Historical Relations

A problem facing the CIDA Industrial Services team in terms of developing a program for the industrial sector in the Philippines was the lack of coalitions in the private sector within the Philippines. Given the structure of the programs, the CIDA staff needed to build coalitions in the private sector and in grass roots organizations. The fact that CIDA did not have previous programs within the Philippines meant that few private sector groups knew about it or cared.

The need for coalitions is evident throughout the donor literature, however. Numerous studies have shown that donor programs are more effective when the recipient country group has been involved in program formulation. Without involvement at early stages, the group within the country will undoubtedly engage in what the Strachan (1978) calls subterfuge. This subterfuge, as perceived by the donor, will mean that in the implementation process, the program will be transformed from

the one which the donor designed to the one which fits the needs of the group.

As well, donors need the backing of a group who is committed to its plans and projects and will assist in the approval and acceptance process. To gain this support, staff in the field many times must represent the interests of the coalition within the donor organization. This means that the assessments in the field must be tailored to the tradeoff inherent in this relationship since the goals of both the client and donor must be taken into account.

CIDA faces long term problems with its programs if coalitions are not built. The end target groups for the CIDA industrial program is micro and small scale enterprises. This is more complicated, however, by the fact that the firms which are supposed to be impacted by the program are those enterprises who currently have little or no access to the formal credit system, Government programs and technical assistance.

To make any progress on this front, CIDA staff will have to build relations with institutions which share their view of how the system needs to be changed. It may be relatively simple to appoint an institution to administer the program in a mechanical fashion (disbursing funds, meeting deadlines, etc.) but far more difficult to find one which also tries to meet the ultimate objectives of the industrial program.

Coalitions are important to many donors in the Philippines in terms of trying to implement their programming. The Germans have developed a strong program in Cebu to support the manufacturing sector. Working with the Cebu Chamber of Commerce (CCC), the Germans have been able to supply credit and technical assistance to CCC members. They have also placed a resource person in the Philippine Board of Investment (BOI). The task is to help the BOI attract German investors, technology or expertise to the industrial sectors designated as a priority by the BOI. The fact that the Germans are supporting the BOI in undertaking the BOI agenda--and have been quite successful at it--has meant that the BOI is very supportive of any programs put forward by the Germans. Discussions at both the Cebu Chamber of Commerce and the BOI indicate that coalitions have been built over time which have helped the donor programs be implemented and successful.

The World Bank has taken a different approach to coalition building focusing almost exclusively on the Government. The policy changes flowing from the SALs and the industrial programs of the Bank all rely on the Government for changes to the environment within which industries operate. The basic premise of the Bank approach to industrial development puts the initial onus on the Government to change its ways. Without the commitment of the Government to these changes, the policy reform implementation rate will be low.

Throughout the 1970s and early 1980s, the Bank was very successful at building coalitions within the Government. In fact, by a number of accounts the Bank and Government policy were basically synonymous. Bello et al (1982) contends that the Bank has even placed its own appointees in top spots within the country to ensure that the various Bank programs are followed. With the change in Government in 1986, the Bank has been forging new relationships within the Aquino Government.

The task of building coalitions on the national government level appears to be more difficult, however. Conflicts erupted during 1988 between the Department of Trade and Industry (DTI) and the Bank regarding the continual emphasis of the Bank on policy reforms. The DTI felt that continued emphasis on trade liberalization at a time when many firms were having a difficult time adjusting, was inappropriate. As well, the constitutional reforms put in place by Aquino which have established a legislative process meant that policy implementation was now a more complex matter. The democratization has increased the difficulty of implementing the Bank's approach.

On the other hand, building coalitions with governments involves less risk than dealing with the private sector--particularly small scale enterprises. One of the main obstacles faced by the CIDA Bilateral staff in implementing an industrial program is trying to get the involvement of the

Canadian private sector in the process. Canadians have always been risk averse in their operations with developing countries (Rahman and Grant 1987). While the Canadians may be interested in providing services, supplying inputs or straight transfers of technology to small and medium enterprises within the Philippines, little interest exists in building long term relations.

VII. CONCLUSIONS

As is true for many donors, the Canadian International Development Agency (CIDA) has been continually called upon over the last thirty years to reorient its programming--adopt new objectives or tackle new development problems. These calls have come from a wide variety of sources including pressure groups within Canada, other portions of the Canadian bureaucracy, other donor agencies, developing countries and the developed country community. Many reviews of donor activities predict that these pressures are the motivating force behind bilateral program development.¹

These pressures undoubtedly do have an influence on decision making as CIDA programs continually evolve. As shown in Chapter 2, commercial pressures clearly did push CIDA towards industrial cooperation and mixed credit programs during the late 1970s. The NIEO debates during the 1970s translated into increased priority within CIDA for programs based on self-reliance. The original aid programs in the 1950s and 1960s were merely copies of the aid programs being followed by the US and the World Bank.

While these conflicting demands did act to push and pull the organization in various directions, they are not adequate to

¹ A wide range of studies conclude that bilateral donor programs are dictated by political and commercial motives primarily. These same studies put forward a case for increased aid to multilateral agencies as a way to circumvent these problems. See for example, Development Committee (1986).

explain many of the changes in orientation which have occurred. For example, the move into bilateral industrial programming in 1980 was not due to commercial pressure. Yet the programs represented a break from the traditional approach to industries which CIDA had pursued from its inception. Why then was new programming undertaken? The answer lies only partly in analyzing pressure groups. Of equal, or greater importance, is the overall environment within which the organization operated and how a variety of factors converged.

The preceding chapter presents a four stage model of change based on the experience within CIDA. This model represents cycles of decision making which have been triggered in donor agencies as conditions in the donor environment change. Donors have tended to enter periods of crisis at the same time and sought to resolve these crises by reformulating the emphasis of their programs. The turn toward industrial programming in the late 1970s reflects one more phase in this continuing evolution.

As with other periods, the decision to change the approach of the organization toward industrial programs was triggered by growing uncertainty. As stated in Chapter 6, this uncertainty made the course and programs being followed no longer sustainable. Donors needed to find a solution which allowed the development of viable programming at the developing country level. This quest for a solution to

growing development problems represented an attempt to make the environment of donors more stable.

Recent aid reviews have expressed a belief that solutions to development problems are possible if the international community and individual countries are willing to acknowledge their existence and take whatever steps are necessary to implement them. This was seen in the Brandt Commission Report (1980) which indicated:

We are convinced that the world community will have to be bold and imaginative in shaping that new order and it will have to be realistic in its endeavours. Change is inevitable. The question is whether the world community will take deliberate and decisive steps to bring it about or whether change will be forced upon us all through an unfolding of events over which the international community has little control.

While less sweeping in its approach, the Task Force on Concessional Flows (1985) also was solution oriented, suggesting that correct mixtures of policies would provide success at the recipient country level.

Inherent in these assessments was an assumption of predictability in terms of future problems within developing countries. Solutions could be found to development problems if a rational approach was taken to analyzing issues and formulating and implementing strategies for their resolution. These aid reviews had faith in the ability of donors--particularly multilaterals--to find appropriate development strategies and contribute to their implementation. The CIDA

policy formulation showed much the same faith in its ability to find appropriate programs.

Yet, as Rondinelli (1983) indicates,

In reality, ... international institutions had been attempting to promote social and economic change in developing societies since the early 1940s with relatively little knowledge of the conditions they were seeking to transform and with little certainty that their theories, policies, and projects would produce the desired effects.

It is precisely this uncertainty which drives donors to find new solutions or approaches to development. Donors portray this process as iterative, learning from past experience and developing rational solutions based on that experience. In fact, it is a continuing quest to find the solution to development which will make the development programs stable. As noted in Chapter 4, since donors are working in an area which affords little stability, the quest for new solutions to development will continue to be an ongoing process. The implication is that donor agencies are not repositories of development answers but represent additional actors in the development field looking for solutions.

CIDA's policy formulation reflects this process. The decision to change the approach of its aid programs was triggered by four variables: the global economic situation; changing demands of developing countries; pressures from groups both within and outside of Canada; and organizational

pressures to change. These four variables converged and made continuing on the previous programming path unsustainable.

As indicated in Chapter 2, many of these same pressures impacted all donors bringing into question donor programs in general. The fact that many donors have entered crisis periods at the same time is not a coincidence. The donor policy reviews which were undertaken in the early 1970s and late 1970s/early 1980s were a reflection of the confluence of these factors which made the existing donor programs inappropriate for meeting the developing country needs.

The new policies to be put in place by CIDA were determined by a two stage process. First an official policy resolution was reached which took into account four factors: the demands and pressures from the organization's constituencies; the pressure from the donor community toward increased complementarity of programs and a particular development model; the opportunities at the developing country level; and the acceptable theories of development. From this came the official policy framework and a decision that industrial programs would be part of the bilateral program package.

This framework was then adapted by the organization into an operational "theory" of industrialization which would act as the basis for developing programs in the field. Part of this adaptation was ensuring that the approach to enterprise support fit with the traditional theoretical approach of CIDA as well as the internal structure and procedures within CIDA.

The last stage then represented the application of CIDA's approach to a country specific situation. Chapter 4 shows how CIDA applied its approach to industrial programs in the Philippines and how the resulting analysis differed from other donors operating within the country.

The differences in approach between donors then are not based merely on one donor being driven by political motives, while another is driven by commercial interests. While these variables may have greater or lesser importance at any particular time for a particular donor, the programs which are formulated are part of a complex process of decision making. While many of the same factors may pressure for change, how the donor resolves these pressures depends on how various factors are weighted in the decision making process.

Developing Differences in Approach

As shown in Chapter 2, before the late 1970s, a certain similarity was evident between donors vis a vis industrial development. Most donors were reluctant to directly support industrial enterprises. This reluctance was based on a number of factors. Originally, the approach to industrial support was very conservative. Donors, including Canada, adopted a policy based on much of the capital constraints literature of the 1950s.² Capital was assumed to be the determinant of

² See for example Rostow (1960), Rosenstein-Rodan (1943) and Nurske (1953).

growth and the principal constraint within the economy. By increasing physical capital through infusions of aid, they could increase production within the developing country economy. Canada along with most donors translated this into programs which provided infrastructure and technical assistance.

While the demand for donor funding of direct industrial projects grew during the early 1960s, few donors moved in to supply the funds. The reasons were based on the theory of industrialization which they had adopted--specifically their perceptions of appropriate roles for the private sector and public sector within the industrialization process.

Many of the projects which sought donor funds were large scale, public sector projects. The public ownership acted as a deterrent for donors such as Canada who felt that industrial development should rely on the private sector and private capital markets. Canada also had another problem in terms of domestic constituencies. The potential competition between the donor country firms and the developing countries hindered more active support.

During the 1970s, many donors were forced to shift their programming away from infrastructure because of decreased demand at the developing country level. This triggered shifts in the overall policy framework of individual donors as they tried to find a new niche for their aid programs. The possibility of shifting into industrial projects at this point

was limited, however. The demand for donor funding of enterprises was low since many developing countries and firms had access to private capital markets. These markets allowed a more self-directed approach with few of the donor conditions. Instead, donors like Canada and the World Bank moved into funding more social programs.

Events at the end of the 1970s triggered changes within developing countries in terms of how they approached industrial development. Until the mid to late 1970s, industrial policies dictated the fiscal, trade and monetary policies which a country followed. A country decided the route it wanted to take given factors such as resource level and domestic market size, and set in place mechanisms to achieve these goals. As indicated in Chapter 3, many times the strategy included substantial roles for the public sector in direct industrial provision, an emphasis on large scale enterprises, and high domestic market protection. While not always successful, the strategies were viewed as vehicles to improved income levels, a modern production base, and self-sustained development.

The shocks at the end of the 1970s, which ranged from interest rate increases to increased protectionism within developed countries, triggered balance of payments crises in many developing countries. Large public deficits could no longer be sustained, large-scale inefficient industries funded or declining employment levels ignored. The balance of

payments constraints began to dictate the industrial strategies which were followed.

Shifts began to take place in the policy approach at the developing country level. The need for foreign exchange forced an increasing emphasis on export producing industries. The decreased resources available to the government shifted the burden for industrialization back to the private sector. Small and medium scale enterprises became the focus for overcoming many of the employment problems.

The shift in industrial strategy and the growing balance of payments problems within developing countries caused many of these previous obstacles to donor funding to become less important. The increasing reliance on the private sector meant that the theoretical biases against public sector projects could be circumvented. The sudden increased demand at the country level meant that opportunities opened again for donor support to industries.

CIDA might not have moved to provide this support if another critical factor had not made its focus on social programs untenable. The global economic situation and changing needs at the developing country level meant that the demand for CIDA's current programs had decreased. The organization was facing a crisis of not being able to disburse funds or reorient its focus quickly enough to reflect the rapidity of change within developing countries. The need to move away from social programs meant that a programming niche had to be

found. Pressures within Canada and inside the donor community were being exerted to make programs more relevant to the dramatic changes.

These variables impacted almost all donors forcing them into a period of growing uncertainty. Donors were looking for new ways to assist the adjustment process which would fit with their organizational needs, be supported by constituencies within the organization, generate sufficient demand from developing countries, conform with the movement of other donors, and be within the organization's acceptable theory of development. While the importance of each of these variables fluctuated between donors, they were all looking for a solution or niche in the changing development landscape.

CIDA turned to direct support to micro, small and medium scale enterprises as one route for programming. The decision and the character of the interventions resulted from balancing a number of factors. The increased emphasis within developing countries on enterprises and the private sector for overcoming balance of payments problems meant that a market existed for donor funds which had not been evident throughout the 1970s. Funds were needed to assist enterprises which were particularly hard hit by economic shifts. The fact that programs could be put in place which supported the private sector meant that the theoretical obstacles regarding public/private roles were lifted.

As well, traditional objections of commercial groups within Canada to industrial projects were no longer relevant since small and medium enterprises posed little competitive threat to Canadian firms. In fact, constituencies within Canada especially grass roots groups were pressuring for support to enterprises as a way to increase employment within the recipient countries and lessen the burden of adjustment.

These factors converged to push CIDA towards direct support of enterprises through provision of credit, training, marketing, and other programs. The Bilateral desks began to program industrial projects based on the specific needs of the developing country.

As indicated in Chapter 6, a number of donors such as the Netherlands and World Bank, moved in a similar direction establishing programs for direct industrial support. The dynamics within each organization produced a spectrum of programs being offered to developing countries in support of industrial programs. These included sectoral adjustment loans, technical assistance for policy, credit programs, cofinancing of joint ventures with the private sector, training, and institution building.

For donors to undertake this new spectrum of interventions, they had to move into areas which had traditionally not been their focus. Policies towards industrial development had to be reformulated--beyond simply the desire to have the private sector be the motivator for development which remained the

basic theoretical bias. A specific theory of industrialization had to be developed which would guide the programs within each agency. As described in Chapter 6, this theory resulted from adaptations within the internal organization (including the practical concerns of implementation) and the traditional theoretical approach of the donor.

The World Bank, to successfully implement its Structural Adjustment Lending, had to determine the framework which would be used for conditions for the loans. For a number of reasons, it turned increasingly toward one model for development which was based on "outward orientation" and the International Monetary Fund approach to development.

CIDA, on the other hand, needed to formulate its first approach to industrial development. Since the need for consistency in the Bilateral programs was not considered important, CIDA handed the design of the actual programming framework to the technical staff within the Industrial Services Section (ISS). They became responsible for defining how issues were to be addressed. The ISS developed a more structuralist approach to industrial development which was then translated into programming at the country level.

Translating These Differences To The Country Level

With the new policy frameworks in place and the resulting theories of industrialization and administrative support established, CIDA and other donors began to undertake

industrial assessments within countries which differed considerably in some cases. The assessment within the Philippines of the issues facing the industrial sector as outlined in Chapter 4 shows the resulting similarities and differences between CIDA's approach and other donors.

Like most donors, CIDA's ISS team went into the field with the assumption that it was going to undertake an independent analysis of the issues facing the Philippines industrial sector.³ While the Philippine Government program was considered one input into the process, the ISS group felt that it should not be restricted by the Government plans. After three missions, and a lengthy interview process within the Philippines, the ISS made assumptions about the industrial structure within the Philippines which set the ultimate objectives of the program--they were also quite different than the conclusions reached by the World Bank.

The primary difference revolved around whether the industrial sector was so dominated by a small group of firms, that other groups were in effect excluded from access to Government programs, credit and technology--whether "rent seeking behaviour" still existed within the Philippines. As described in Chapter 3, this situation was partly the result of policies pursued in the 1970s by the Government of the Philippines.

³ The need for undertaking independent assessments is covered in Chapter 6.

While both the World Bank and CIDA agreed this characterization was true during the 1970s, a difference of opinion was evident about whether or not the rent seeking behaviour was still operating within the economy. The Bank argued in its internal documents that the policy changes which the Philippines had undertaken since 1980 in terms of tariff reform, import restrictions, interest rates, exchange rates, indirect tax systems and privatization of public enterprises had resulted in a fundamental transformation of the policy environment. This eliminated the biases within the system and removed the possibility for continued rent seeking behaviour.

Unlike the Bank, the CIDA ISS team concluded that rent seeking behaviour had not ended with the policy changes and still acted as a critical obstacle to effective development. While changes on the policy level had theoretically allowed greater access to opportunities, the bifurcation of the industrial sector and its overwhelming enclave nature meant that old patterns were not fundamentally changed. The decision that the industrial structure had not changed, and that CIDA should as a result specifically target firms who were currently outside the mainstream, became the foundation of the programming.

Just as the Bank's assessment had conformed to its theoretical foundation of "getting the prices right" so had the CIDA analysis built on the more structuralist approach. The theory underlying the Bank's approach said that once the

prices were changed within an economy, then all firms had an equal chance for access to the system. CIDA's assumptions was that while policy changes should allow better access to the system, all firms were not automatically equal. All policy shifts result in a change in the distribution of income and impact different groups differently. Therefore, help should be given to firms to assist in the adjustment process.⁴

Changing A Policy Framework

The impact which changes to the overall donor policy framework can have on the sectoral programming is clearly illustrated in Chapter 5. While CIDA's ISS group was undertaking programming in the Philippines, the Government of Canada and CIDA management were in the process of redefining CIDA's priorities and programming. In essence, CIDA was going through another cycle of policy formulation. The result of the policy resolution was a new emphasis on providing support in areas such as human resource development. While sectoral programming would still take place in the industrial area, it would now have to focus more clearly on this new overall policy approach.

To translate the new policy framework to the sectoral level, CIDA chose not to specifically formulate a new theory of

⁴ The theoretical assumptions underlying these two approaches are covered extensively in Chapter 2.

industrialization.⁵ Instead it chose to change the internal relationships within the system to ensure that the new policy guidelines became the parameters for all programming. These changes in internal organization fundamentally changed the programming possibilities of the ISS--forcing parts of the analysis to be dropped while others to be taken up.

To understand the impact of the changes it is important to review the way the ISS had operated since 1980. As a professional service group, the ISS was able to undertake independent issues analysis in countries with little interference on the sectoral level from within CIDA. In a sense, it operated outside of normal donor framework--with the donor emphasis on disbursal of funds, administrative imperatives, etc. In fact, the issues identification undertaken within the Philippines was astonishingly free from organizational pressures normally associated with a donor programming stream. This allowed a different kind of analysis which was not only open in its process but honest about the problems facing the country.

Two relationships were changed with the CIDA policy review. Whereas before, the ISS was free to undertake programming based on its perception of sectoral needs, now the ISS staff

⁵ The reasons as outlined in Chapters 2 and 5 clearly connect to the pressures which converged to drive the new framework including the demands of internal constituencies, the role which the donor community was pressing CIDA to take and the need to undertake a less ad hoc approach to programming.

had to conform to the new programming parameters. While it could continue to use the same theory of industrialization, it had to apply it through different programming. In essence, the ISS was no longer in control of the programming process but had to work within very strict parameters.

The other change revolved around the freedom of the Bilateral desks to set their own agendas on a country level. The Bilateral desks now had to conform to set criteria established by the Branch within which it was located. In the case of Asia Branch, the Branch put forward common objectives, country program review frameworks and policy options for the Bilateral desks to follow. These then had to become the foundations for the ISS sectoral program as well.

These two organizational changes meant that the ultimate goals of the ISS program for the Philippines were no longer suitable within the organization. The focus on supporting social and economic change within the industrial sector could no longer be the driving force. The program had to focus instead on the definition of needs as outlined by Asia Branch--specifically on building partnerships between Asian and Canadian firms and strengthening institutions for better program delivery.

The insistence by the Branch that the programs be based on these principles raised problems in terms of implementation of the industrial programs as well as negating any hope for undertaking a more reform oriented agenda. The shifts within

the policy framework and the resulting organizational changes effectively narrowed the possibilities for industrial programming.

Implications

Inherent in this analysis are a number of assumptions about aid and relations between donors and recipients. The first revolves around the purpose and demand for aid within developing countries. Developing countries accept aid as a resource flow when other options are limited. As indicated in Chapter 6, the current constraints at the country level leave few other choices for many countries. Either they accept aid flows or are faced with even more severe adjustment problems.

From the recipient country perspective, the desirability of aid as a resource transfer is lessened by the conditions attached to the funds. The most desirable form of aid would be balance of payments transfers with no conditions. This in fact is what the Philippines requested when CIDA first entered in 1986. To the donor, this is unacceptable, however. Donors want to have control over their programs, selecting the issue to be addressed and the vehicles for program implementation.

While other forms of aid such as famine relief or food aid clearly can be rationalized and programs formulated on humanitarian grounds, designing an enterprise development programs is more subject to negotiation between donor and

country. However, donors, in many cases, portray themselves as having the corner on the intellectual development market.

As indicated in Chapter 5, CIDA's assumption in the Philippines that it should develop its initial enterprise program outside of the influence of the Philippine Government was based on a belief that CIDA would be more capable of implementing a reform agenda than the Government. This assumption was naive since both must contend with the same set of entrenched interests and problems facing implementation in the field. As well, each has its own set of internal blockages to reform. This "rational" approach to program formulation ignored political and administrative obstacles which have caused past donor programs aimed at change to fail.

To ensure effective implementation, donors must be willing to be more honest about negotiating programs. The pressures within the donor agency push it in the other direction, however. It will undoubtedly be up to the governments to ensure that the transfers are done in a negotiated environment.

The second assumption flows from the first. Developing countries continually criticize donors for attempting to impose their perspective of development on the recipient countries. Inherent in this criticism is the belief that donors do not simply undertake objective assessments and produce rational solutions which should then be implemented. Each donor has a theory of development from which it works,

which partly shapes past programs and influences the parameters for undertaking new programs.

Underlying this document is the belief that donors do have a theory which guides the way they undertake programming. This theory is shaped by a wide variety of forces which interact differently within different donor agencies. Policy formulation then becomes a reflection of how cycles of uncertainty and change are resolved within each agency. Donors are not discovering a new solution to a development problem. They are focusing on a solution which allows effective programming given an ever changing environment. The implications are that enterprise development programs are not **the** solution to industrial problems, but one attempt at dealing with the problems. A large difference exists between these approaches.

The analysis presented here is aimed at making the donor process more transparent to both recipient countries as well as donor staff. Understanding the complex set of variables which come together to impact programming is difficult both inside and outside an organization. The benefits which can be gained from this understanding, however, are substantial particularly at the recipient country level.

Understanding the framework for how donor programs are developed can increase a country's negotiating and bargaining position. The type of analysis provided here allows insights which are important for dealing with donors. Instead of

assuming the process is haphazard or simply based on preconceived notions, recipient countries can begin to separate out the factors which are operating and pressuring a donor in a particular direction.

This helps the negotiation process in three ways. Recipient governments can begin to pinpoint and recognize changes in policy directions or priorities within an organization earlier. Governments are often taken by surprise by sudden shifts in donor approach which appear from nowhere (as was the case with the ISS industrial program process). Second, by understanding the political and economic rationales behind a donor's approach, a more effective strategy can be developed for negotiating with the donor. Governments can pinpoint areas of flexibility and inflexibility and adjust their approach to take these into account.

Third, how issues are assessed within a donor agency and how they are translated into programs impacts the implementation process. The way a donor defines an issue has repercussions not only on how the program can be formulated, but also on how effective the implementation can be within a country context. Governments are many times in a better position to identify potential problems with implementation than the donor agencies. On the other hand, Governments often must deal with the problems caused by poor implementation.

The industrial programming which has been undertaken by donors in the Philippines has ranged from macroeconomic policy

interventions such as support to trade liberalization to microeconomic programs aimed at providing support in areas such as credit and technical assistance. Many of the programs overlap, and their effectiveness has been questioned by a number of recent reviews.⁶ Attempts by the Government to coordinate donor activities have not been very successful, however.

Part of the problem is internal to the Philippines. Little coordination exists in terms of dealing with donors. The Government has what appears to be fragmented lines of responsibility and limited control over the negotiation process. The emphasis tends to focus more on getting funds than on trying to lever the donor system to have them directed toward certain areas.

Some departments within the bureaucracy are trying to decrease this fragmentation by taking a more controlled approach to sectoral issues. The Department of Industry and Trade during 1988 attempted to exercise more control over some of the World Bank programs which they felt were too based on policy reform not on overcoming problems faced by firms. The process will be slow, however. The Government lacks detailed knowledge about the operations of the donors which limits its ability to intervene in the aid process.

⁶ See for example, Tecson et al. (1988).

The negotiating strength of the Government within the Philippines could be enhanced with a more detailed knowledge of the strengths and weaknesses of different donors and the policy frameworks within which they work. The positive response to CIDA to date is based partly on the openness with which CIDA has tried to operate to date.

It should be noted, however, that negotiations between donors and recipients take place on two levels: between the country and the specific donor; and between the country and all the donors (through consultative groups, etc.). The knowledge of how programming is formulated within a specific donor agency is important for negotiating with that one donor. However, the group dynamics is more difficult to assess. This is particularly important for countries like the Philippines where donor consultative groups have a large influence on what funds the country gets and how those funds are disbursed.

Before a country can take more control of the donor process, it has to be in a position of understanding the different donors and of being able to match its needs with the donor strengths. While the focus of this dissertation has been on revealing CIDA's, and to a lesser extent the World Bank's, patterns of decision making, many of these same variables operate within other donor agencies. What this report can hopefully provide is a guide to helping decipher some of the pressures.

The other side of the equation is equally important, however. Donors need to be more open and flexible in their programming process to allow a better understanding by the recipient countries. CIDA's attempts in the Philippines to undertake an interactive process are a step in the right direction. Even these attempts are plagued by three problems, however.

First, little incentive exists for donors, including CIDA, to be more open. While relative openness is part of the "CIDA approach" to aid, it operates within specific bounds which are defined by organizational needs. The second problem with being more open is the pressure between donors to conform. The increased number of donors and the competition for projects--particularly in areas such as industrial programming--has triggered repeated calls for improved coordination. As described in Chapter 6, this coordination many times is simply a way to increase the control the donors have as a group over the process.

Third, for CIDA line personnel, the changes to programming which resulted from the CIDA policy shift were as much of a surprise within the organization as they were outside of CIDA. While the review process was going on, the staff assumed that the impact on actual programs would be minimal. By not understanding how the policy framework impacted the system, there was little anticipation of how the changes would work

their way through the system. As a result, few attempts were made to minimize the impact on industrial programming.

Despite the fact, that CIDA occasionally does not stick to the donor party line, it still remains aligned with the developed countries and their donor agencies. While trying to be open in the Philippines, it is also open to increased pressure from the other donors to have all programming, including its industrial components, conform. This pressure, out of necessity, will work to a certain extent.

A more fundamental problem with making the system of donor programming more transparent is breaking down some of the inherent biases which exist in the current donor/country relations. While CIDA's industrial assessment ended up reinforcing many of the points which were underlying the Aquino Government's "people powered" agenda, CIDA went into the process assuming that it had a right to assess issues independently.

The right to do an independent analysis was based not only on the fact that this assessment was necessary to fulfil CIDA's policy dictates (one of the findings of this dissertation) but also on the fact that CIDA would be more objective than Government analyses. This assumption of objectivity, underlies most donor programs. In fact, much of the debate within donor agencies regarding industrial issues has revolved around the ability of certain donors to define

what the correct industrial paths are for a country to follow-based on objective, rational, economic assessments.

A corollary to the assumption of objectivity is the need by donors to ignore the political character of some variables which impact a donor's policy framework. This is particularly true in the multilateral setting. By accepting the fact that issues within a donor organization are defined in response to a range of pressures from outside, the ability of donors to maintain the appearance of objectivity is lessened.

The acknowledgement that the donor's policy framework sets the parameters for sectoral programming also acts as an acknowledgement that donor organizations are not apolitical or driven by developmental concerns. In fact, they are driven by the need to stabilize their environment and deal with uncertainty. The focus should be more on building increasing adaptability into donor programs and less on finding the "right" solution to development problems. It is precisely this acknowledgement which is needed in order for donor agencies to build the flexibility into their programming that will enhance the appropriateness of aid.

APPENDIX A

SUMMARY OF METHODOLOGY

The methodology used for this dissertation was a combination of field work, interviews, publication reviews and informal discussions. Some of the interviews which were undertaken were done within the context of my work for the Canadian International Development Agency; others were specifically geared towards assembling the information needed to analyze the process within CIDA, the Philippines and donor agencies in general.

Since much of the interview process was undertaken in confidence, the names of those interviewed will not be listed. Instead, a list is provided of the organizations or types of individuals who had input into the research.

As well, I had access to a wide variety of confidential material within CIDA, the World Bank and US AID which has been integrated into this work but can not be listed in the bibliography. These materials included everything from trip reports, to internal policy documents to evaluations and provided invaluable insights into the rationales for programs and the inner workings of different donors.

Interviews¹ or Key Meetings

1) November 17 - November 25, 1986 - Washington D.C. & New York

Purpose of the interviews was to establish the role which various donors were taking in the industrial field including types of programs being offered, success of the programs, emphasis on program versus projects, current problems with industries in developing countries, split of responsibility between multilateral and bilateral programs, and potential roles for CIDA in this process.

Interviews conducted at:

World Bank

Canadian Executive Director's office
East Asia and Pacific Region
Industrial Section

¹ Note that in all cases a complete list of interviewed organizations is not provided since some were confidential. As well, within organizations usually more than one individual was interviewed per section or group.

International Finance Corporation
Operations Evaluation

US AID

Bureau for Private Enterprise
Program and Policy Division
Small Scale Enterprise Program
Latin American Regional Office
Trade and Development Program

InterAmerican Development Bank
Industrial Section

United Nations

UN Centre on Transnational Corporations
Industrial Investment Promotion Service
UNDP

Ford Foundation

Evaluation Group

2) November 4, 1987 - December 10, 1987 - Manila, Cebu and
Negros - Philippines

Business Groups & Firms

European Chamber of Commerce
Makati Business Club
Philippine Chamber of Industry & Commerce
San Miguel Corporation
Confederation of Philippine Exporters
Cebu Chamber of Commerce
Negros Economic Development Forum
Negros Business Forum
Fish processing plant and sugar processing
Cross section of small scale producers and
exporters

Banks & Government Financial Institutions

Planters Bank of the Philippines
Philguarantee
Far East Bank and Trust Company
Development Bank of the Philippines
Bank of Nova Scotia

Government

Department of Trade & Industry
Subcontracting Program
Governor of Negros
Asset Privatization Trust
Central Bank

National Economic & Development
Administration
Board of Investment

Organizations

Technology and Livelihood Resource Centre
Centre for Research & Communications
Asian Institute of Management
University of Philippines - Individual
professors & Institutes

Donors

World Bank
US AID
Asian Development Bank
Japan - JETRO
Germany

NGOs & Community programs

Negros Rehabilitation & Development Fund
In-Hand Foundation
Don Basco Technical School
Technical University in Negros
Community Groups in Cebu, Negros and Manila
NGOs in Cebur, Negros and Manila

Informal Discussions with policy analysts, bankers, firms,
academics, and individuals.

3) February 17, 1988 - Ottawa

All day meeting regarding the country program review and
update process. Discussion with all Philippine CIDA staff
about their underlying assumptions about the program,
directions in which it should go, and organizational
requirements.

4) April 19, 1988 - April 22, 1988 - Washington D.C.

Discussions with economists and program people regarding the
Philippines and industrial lending in general.

World Bank

Cofinancing Section
Philippines Desk
Philippines, Industry Section

IFC

Program Section

MIGA²

Inter-American Development Bank
Industry Section
Co-financing section
Desk officers

5) September 17 - October 6, 1988 - Manila, Philippines

The purpose of this trip was to assist the program group and the modern sector group within the Philippines to integrate the new CIDA directives into the country program review. Numerous discussions were held within CIDA about the interpretation of the priorities, how the process was changing, implications of these changes, and what the program officers wanted to accomplish. It was my responsibility to devise a way of shifting from an issue driven program (which was based on the previous work) to one which conformed with the Asia Branch directives.

6) October 17 - November 10, 1988 - Manila, Philippines

Purpose of this trip was to attend the Country Program Review meetings being held between the Ottawa based and Manila based officers within CIDA including representatives of Asia Branch, the Ottawa Desk, and the Manila Post. These twenty people met as a group over a five day period. Meetings were then held with Government representatives. Numerous discussions were held with CIDA staff which included representatives of Asia Branch, desk officers, individuals working in the field and the field support unit.

7) November - December 1988 - Manila, Cebu Philippines

During my visits in October and November I met with a number of industry associations, firms, academics, individuals and policy analysts to obtain inputs on a questionnaire which I designed which was being administered to 96 small and medium scale enterprises within the Philippines from November to December 1988. The interviews were undertaken by a group in the Philippines under my supervision. The aim of the 3 hour interview was to obtain information on the needs of firms in

² This was just being established and the interview focused on how MIGA might be used in conjunction with donor programs in the Philippines.

terms of technology, skills, credit, production process, etc.

8) July 17-19, 1989 - Washington D.C.

The purpose of this trip was to test my assumptions about the behaviour of donors in the industrial field and the reasons for differing views and programs.

World Bank

Policy Group
Executive Director's offices
Philippine desk officers
Economic Development Institute

US AID

Chief Economist Office
Policy Analyst
Bureau of Enterprise Development

InterAmerican Development Bank

Industry Section
Executive Directors' offices
Cofinancing section

9) Between 1986 and 1989 - Ottawa

I have held numerous discussions with CIDA staff in Ottawa over the two and a half year period to not only understand the CIDA decision making process but also the impact of the Parliamentary review process, changes in organizational relations and relations with other donors. Some of these interviews have been formal, others informal. The sections within CIDA covered have been: Policy Branch; Multilateral Institutions Branch; Industrial Services Branch; Asia desks; and the Industrial Cooperation program. My work as a consultant to each of these groups has given me unprecedented access and many candid opinions.

APPENDIX B

ORGANIZATION OF INDUSTRIAL PROGRAMMING WITHIN CIDA

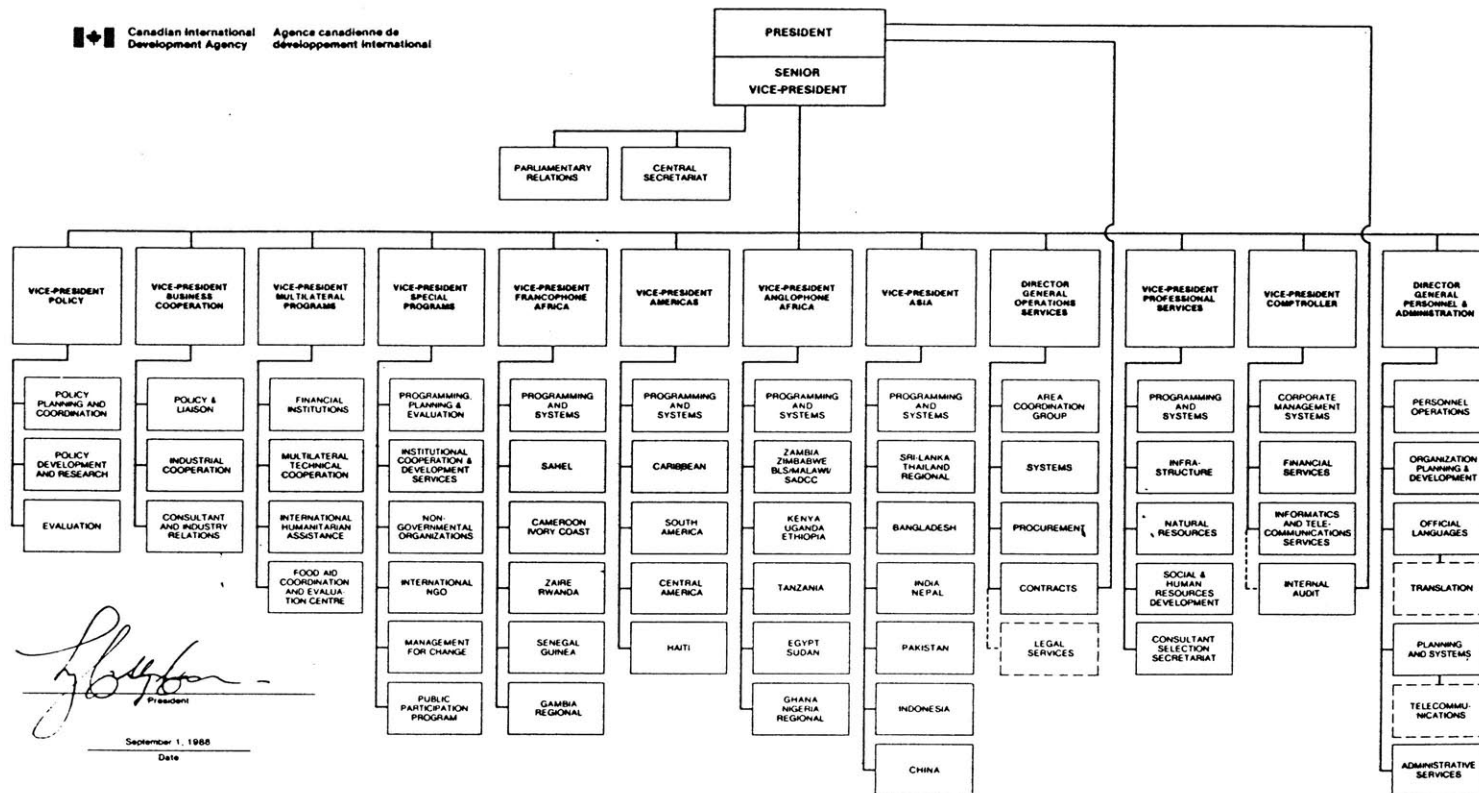
The first step in understanding CIDA involves untangling the various players who are involved in industrial programming. An organizational chart is included which provides a formal outline of the divisions within CIDA. For my purposes, three sections are important: Industrial Cooperation Program (INC) within the Business Cooperation Branch; the Philippines Bilateral Desk within Asia Branch; and the Industrial Services Section (ISS) in the Natural Resources Division within the Professional Services Branch. My involvement with the Philippines program to date has included consulting work with each of these three sections.


Begun in 1977, the Industrial Cooperation Program serves the needs of Canadian firms interested in projects in developing countries. INC's mandate is to provide support and assistance to the Canadian private sector. Firms initiate projects and submit proposals to INC for funding of prefeasibility studies, trade missions and training. The proposals are assessed based on a number of criteria including the appropriateness of the project within the country, the availability of a joint venture partner within the host country, the development impact, and the long term viability of the Canadian firm. While each INC project receives input from the bilateral staff, Post staff, Industrial Services, Export Development Corporation and Ministry of External Affairs, the final assessment of the project is based on the likely profitability of the venture and INC's perception of its developmental impact.

Since the INC program is based on reacting to Canadian private sector initiatives, the market within Canada dictates the programs and interventions which are undertaken. In essence, it operates outside of a formal program context. No requirements exist that bind INC to the formal CIDA Bilateral objectives for a country. In fact, INC projects sometimes operate in direct conflict with the Bilateral programming. Commercial criteria take precedence.

The INC program has not been very active in the Philippines to date. Part of the reason lies in the reluctance of Canadian firms to enter the Philippine market which they view as both politically and economically risky. Mining and petrochemicals are the principal areas where Canadians have had involvement in the past. Few investors have considered manufacturing sectors.

I undertook a project for INC during 1988 and 1989 which aimed at reversing this trend. I had a team of Philippine




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 September 1, 1988
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researchers interviewing 100 Philippine firms in seven subsectors of interest to Canada. The intention was to gain an understanding in areas such as the technology used by the firms, obstacles to expansion, market potential, assessment of risk and areas of potential collaboration between Canadian and Philippine firms. The INC staff hopes that this base of knowledge will encourage Canadians to become more interested in the Philippines for joint ventures, investment, technology transfers or even trade.

The Philippines Bilateral Desk within Asia Branch focuses on meeting the demands and needs of the Philippines. Bilateral programs are "government to government" programs which traditionally have provided everything from food aid to infrastructure to technical assistance. Taking a proactive approach to development, the Bilateral group is charged with formulating the overall program for each country. Documents such as the Country Program Review (CPR) dictate what CIDA hopes to accomplish in a specific country, how it plans to accomplish these objectives and the mechanisms for delivery.

The Philippines Bilateral Desk has been in existence since 1986 (when the Philippines program was started) and finalized its CPR in April 1989. The work which I have done directly for the Bilateral group has been in helping to formulate the group's interim strategy and CPR.

Enterprise development is one component of the overall Philippine Bilateral delivery strategy. Along with other programs such as commodity aid, assistance to non-government organizations, technical assistance to government and a telecommunications project, the industrial program will be implemented in the Philippines between 1989 and 1993. The specifics of the industrial program are being provided by the ISS.

The Philippine program has been decentralized to the field as one of the first decentralized posts. There are 15 staff members working on the Bilateral side in Manila, with only 1-2 support people in Ottawa. From 1986 to Fall 1987, all of the programming was handled through the Ottawa headquarters. After this, the program was slowly transferred to the field.

The Industrial Services Section acts as an in-house consulting team in the enterprise development area. Unlike the staff members in INC and Bilateral who are generalists, the staff in ISS are specialists many coming from engineering backgrounds. Their role is to provide the technical expertise needed to identify needs, and select and design programs in the industrial area.

The purpose of a professional services group is two fold:

to ensure that technical standards are followed within the organization; and to provide a certain consistency of approach to sectoral issues. In this latter capacity the ISS was asked by CIDA's President's Committee to prepare a position paper outlining the approach it thought CIDA should be taking to industrial issues. As part of this process, I prepared a background paper for ISS on the experience of medium and large scale enterprises and where CIDA might better focus its programming.

The primary purpose of ISS, however, is to provide technical assistance to Bilateral and INC. The ISS is supposed to assist both the Bilateral group and INC. ISS must be asked to participate in programming, however, and the funds flow from Bilateral or INC to ISS to pay for that technical assistance. My participation in modern sector missions and preparation of position papers on the modern sector in the Philippines has been as a subconsultant to the Industrial Services group.

While the lines between INC, Bilateral and Industrial Services may appear to be clear, the industrial programming which results from this arrangement is ad hoc. Although theoretically the Industrial Services group is supposed to be assisting both INC and Bilateral, ensuring that the technical and programming basis for projects in both programs are sound, the reality is that Industrial Services basically relates to the Bilateral group. INC, while formally asking for advice, rarely involves Industrial Services beyond this.

In addition, since 1981 the Bilateral program has increasingly used the Canadian private sector to help deliver its programming. Canadian companies have been increasing their roles in formulating strategies as well as in helping to implement them. The result is an increasing competition between the INC program and Bilateral program. They both tend to target the same limited number of private sector groups to help deliver the industrial components of their programming, and even compete for projects within countries.

The focus in this thesis is primarily on the industrial programs formulated by the Bilateral and ISS staff. The issues identification activities and program in the Philippines only marginally involved INC. It is important, however, to understand the relationship between INC and Bilateral in order to understand the changes which have occurred within CIDA since 1980.

APPENDIX C

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